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October 29, 2007

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
Office of the Secretary
445 12th Street, SW
Washington, DC 20554

Section 272 Biennial Report for AT&T Inc. – BellSouth Telecommunications, Inc.
EB Docket No. 03-197

Dear Ms. Dortch:

Pursuant to Section 31(e) of the "General Standard Procedures for Biennial Audits Under Section 272 of the Communications Act of 1934, as Amended, for the Period May 24, 2005 through December 19, 2005" in the above referenced matter, Ernst & Young is filing our Report of Independent Accountants on Applying Agreed-Upon Procedures with the following appendices:

- Appendix A – Results of Agreed-Upon-Procedures
- Appendix B –Final General Standard Procedures dated October 15, 2007

This document will also be filed electronically through the Federal Communication Commission's Electronic Comment Filing System.

Sincerely,

Ernst + Young LLP

cc: AT&T Inc.
Alabama Public Service Commission Staff
Florida Public Service Commission
Georgia Public Service Commission
Kentucky Public Service Commission
Louisiana Public Service Commission
Mississippi Public Service Commission
North Carolina Utilities Commission
Public Service Commission of South Carolina
Tennessee Regulatory Authority

AT&T INC.

Report of Independent Accountants on Applying Agreed-Upon Procedures
October 29, 2007

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Report of Independent Accountants on Applying Agreed-Upon Procedures

To the Management of AT&T Inc.:

We have performed the procedures enumerated in Appendix A, which were agreed to by management of AT&T Inc.[1] and the Joint Federal/State Oversight Team (Joint Oversight Team)[2] (collectively, the Specified Parties), solely to assist these Specified Parties in evaluating BellSouth Telecommunications, Inc.'s (BST) compliance with the requirements of section 272 of the Communications Act of 1934, as amended (Section 272 Requirements)[3], during the period from May 24, 2005 to December 19, 2005 (the Engagement Period). This engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Specified Parties of the report. Consequently, we make no representation regarding the sufficiency of the procedures described in Appendix A either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results obtained are documented in Appendix A.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on BST's compliance with the Section 272 Requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Management of AT&T and the Joint Federal/State Oversight Team, and is not intended to be and should not be used by anyone other than these Specified Parties. However, this report is a matter of public record and its distribution is not limited.

Ernst & Young LLP

October 29, 2007

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1 BellSouth Telecommunications, Inc. is a wholly owned subsidiary of BellSouth Corporation. BellSouth Corporation was acquired by AT&T Inc. on December 29, 2006.

2 The "Joint Federal/State Oversight Team" is composed of staff members from 9 state regulatory agencies and the Federal Communications Commission (FCC). BellSouth Telecommunications, Inc., the Bell Operating Company, operates in the following nine states: Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina and Tennessee. Representatives from Mississippi did not participate with the Joint Federal/State Oversight Team.

3 These requirements are contained in 47 U.S.C. section 272(b), (c) and (e) of the Communications Act of 1934, as amended (the Act), and in 47 C.F.R. section 53.209(b) of the FCC's rules and regulations.

APPENDIX A

Results of Agreed-Upon Procedures

Objective I: Determine whether the separate affiliate[4] required under section 272 of the Act has operated independently of the Bell Operating Company (BOC).

1. Inquired of BellSouth Corporation (BSC or BellSouth) management whether there have been any changes in the certificate of incorporation, bylaws and articles of incorporation of the Section 272 Affiliate[5] and whether there have been any legal and/or "doing business as" (DBA) Section 272 Affiliate name changes during the Engagement Period[6]. In response, BellSouth management[7] represented the following:

    - *There were no changes in the certificate of incorporation, bylaws and articles of incorporation of BSLD during the period May 24, 2005 through December 19, 2005.*

    - *There have been no legal or DBA name changes for BSLD during the Engagement Period.*

    - *BSLD was the only Section 272 Affiliate as of December 19, 2005.*

    Reviewed BSLD's certificate of incorporation, bylaws and articles of incorporation, as well as minutes of the Board of Directors for the Engagement Period and noted the following:

    - No legal or DBA name changes were included in the documents reviewed.

    - The minutes included documentation of one merger on September 30, 2006, between BSLD and BellSouth BSE of Virginia, Inc. The minutes indicated that BSLD was the ongoing corporation after this merger.

[4] "Affiliate" is defined in Paragraph 13 of the General Standard Procedures (Appendix C) as a person that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with, another person. For this purpose, the term "own" means to own an equity interest (or equivalent thereof) of more than 10% (see section 3 of the Communications Act of 1934, as amended).
[5] "Section 272 Affiliate" is defined in Paragraph 14 of the General Standard Procedures as BellSouth Long Distance, Inc. (BSLD), and any other affiliate that originates InterLATA telecommunications services in the BellSouth region that is subject to section 272 separation requirements, and any affiliate that engages in manufacturing activities as defined in section 273(h).
[6] Paragraph 7 of the General Standard Procedures defines the "Engagement Period" as May 24, 2005 to December 19, 2005.
[7] BellSouth management" refers to officers, directors, managers or other employees of BSC, BellSouth Affiliate Services Corporation (BASC) or other administrative services affiliates reporting directly to BSC who have management responsibility for BST and BSLD.

- There were no changes to the bylaws or articles of incorporation of BSLD that would indicate BSLD was not separate from the BOC[8].

2. Obtained[9] and inspected BSC's organizational charts as of December 19, 2005, and noted that BSLD is a wholly owned subsidiary of BSC and BSLD and BST are direct subsidiaries of BSC.

Also obtained written confirmations from legal counsel and corporate secretary of BSC confirming the following:

- That the corporate organizational chart provided accurately reflects BSC's legal, reporting and organizational corporate structure of BSLD as of December 19, 2005.

- BSLD is BellSouth's only Section 272 Affiliate as of December 19, 2005.

- There were no changes in the legal, reporting and operational corporate structure of BSLD during the Engagement Period.

3. Inquired of BellSouth management whether BST performed any research and development (R&D) activities on behalf of the Section 272 Affiliate during the Engagement Period. In response, BellSouth management represented the following:

[8] "BOC" is defined in Paragraph 11 of the General Standard Procedures as Bell Operating Company. If the BOC transfers or assigns to an affiliated entity ownership of any network elements that must be provided on an unbundled basis pursuant to Section 251(c)(3), such entity shall be subject to all of the requirements of the BOC. For purposes of this engagement, in the event that the BOC provides exchange and/or exchange access services on a retail or wholesale basis exclusively through one or more of its subsidiaries or affiliates, or through one or more other subsidiaries, divisions, etc., of the parent Regional Holding Company, and the same services cannot be purchased directly from the BOC, then these entities shall also be subject to all of the relevant nondiscriminatory requirements of Objectives VII through XI of this document. Affiliates that merely resell the BOC's exchange services and/or exchange access services or lease unbundled elements from the BOC, or engage in permissible joint marketing activities (see Section 272(g)(1) of the Act), shall be excluded from these requirements. Paragraph 12 of the General Standard Procedures define BellSouth Telecommunications Inc. (BST) as the only "Bell Operating Company" serving the nine-state territory and subject to this biennial agreed-upon procedures engagement and includes any successor or assign of such company as described in Paragraph 11. The term Incumbent Local Exchange Carrier (ILEC) includes BST and any successor or assign of such company as described in Paragraph 11.

[9] Pursuant to Paragraph 16 of the General Standard Procedures, for the purposes of this engagement, the term "obtain" as referred to in the procedures contained herein, shall mean that Ernst & Young will physically acquire and generally retain in the working papers, all documents supporting the work effort performed to adequately satisfy the requirements of the procedure. Ernst & Young, in our professional judgment, shall decide which items are too voluminous to include in the working papers. Ernst & Young shall also include a narrative description of the size of such items, as well as any other reasons for our decision not to include them in the working papers.

- *During the Engagement Period, BST did not perform or offer R&D services to Section 272 Affiliates, and BST did not perform or offer R&D services to unaffiliated entities.*

4. Obtained the balance sheet as of the end of the Audit Test Period[10] for BSLD and noted that the Fixed Asset balance listed on the balance sheet is $373,365,393. Also obtained detailed listings of all fixed assets (fixed assets listing) including capitalized software as of the end of the Audit Test Period. Noted that fixed assets listing totaled $370,608,225. Calculated a difference of $2,757,167 between the fixed asset listing and the balance sheet. From the accounts listed on the balance sheet, identified that the difference of $2,757,167 related to amounts booked to clearing accounts.

   BSLD management provided the following explanation of the difference:

   - *The difference can be attributed to clearing account amounts included in the balance sheet but not in BSLD's asset management system. Clearing accounts are used for assets that the Company has not yet entered into the detailed fixed asset listing due to timing. The assets that are bought and paid for are recorded in clearing accounts until BellSouth Affiliate Services Corporation (BASC) obtains additional information (asset location and tag number) and moves the asset to the in-service accounts.*

   Also noted that the Construction in Progress (CIP) account balances listed on the November 30, 2005 balance sheet totaled $25,087,287. Obtained a detailed listing of CIP assets as of November 20, 2005, that also totaled $25,087,287.

   Reviewed the fixed assets listing for assets added during the Audit Test Period and determined that all listed items included information for the data fields listed below.

   - Description
   - Location
   - Price Paid and Price Recorded (listed as Current Cost)
   - From Whom Purchased or Transferred

   Noted that the fixed assets listing included a date in service rather than the date of purchase for each asset.

[10] Paragraph 7 of the General Standard Procedures defines the "Audit Test Period" as June 1, 2005 to November 30, 2005.

APPENDIX A

Results of Agreed-Upon Procedures

From the fixed assets account listing, determined that transmission and switching facilities were recorded in accounts 12701, 12705, 14013 and 14015. From the fixed asset listing identified 16 assets totaling $1,843,814 that were recorded in transmission and switching facilities account with in-service dates during the Audit Test Period. Selected all 16 assets for testing. For the 16 assets tested, inspected vendor invoices and/or other documents that revealed ownership. From the documents reviewed, noted that none of the 16 assets were owned jointly with BST.

For one of the 16 assets tested, noted a difference of $602.40 between the invoice amount and the amount recorded on the fixed assets listing. BSLD management represented that:

- *This asset was originally overstated by the BASC accounts payable tax program (BASC AP). When BASC AP corrected the error, the corrected amount was applied against the asset clearing account and was subsequently written off. The amount was corrected by BSLD in April 2007.*

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Objective II: Determine whether the separate affiliate required under section 272 of the Act has maintained books, records and accounts in the manner prescribed by the Commission that are separate from the books, records and accounts maintained by the BOC.

1. Requested BSLD's general ledger for the Audit Test Period ending November 30, 2005. Noted that the general ledger for BSLD is kept on the Oracle platform and was distinguished by a balancing entity code of 59000. Downloaded a list of balancing entity codes from the BASC internal web site and verified that the balancing entity code of 59000 was unique for BSLD. Matched the name associated with BSLD's balancing entity code on the general ledger with BSLD's name on its certificate of incorporation. In addition, determined by observation that a separate general ledger is maintained for BST which is kept on the PeopleSoft platform.

2. Obtained BSLD's balance sheet and income statement as of November 30, 2005.

3. Obtained and reviewed a list of BSLD lease agreements for which the Section 272 Affiliate was either the lessor or lessee as of November 30, 2005. From this listing, identified three leases with annual obligations of $500,000 or more and obtained copies of the lease agreements.

   Obtained BellSouth's lease accounting policy, "Lease Administration: Functional Policy 34" and noted that the policy states that leases will be accounted in accordance with FASB Statement of Accounting Standards No. 13, *Accounting for Leases*, and its related interpretations (FAS 13). FAS 13 states that a lease should be accounted for as a capital lease if it meets any one of the following criteria, otherwise, it should be accounted for as an operating lease:

   a) Ownership is transferred to the lessee by the end of the lease term.

   b) The lease contains a bargain purchase option.

   c) The lease term is at least 75% of the property's estimated remaining economic life.

   d) The present value of the minimum lease payments at the beginning of the lease term is 90% or more of the fair value of the leased property to the lessor at the inception date, less any related investment tax credit retained by the lessor and expected to be realized by the lessor.

APPENDIX A

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Reviewed the terms and conditions of the three leases and noted that all three leases should be accounted for as operating leases based on the FAS 13 criteria listed above. Obtained BLSD's year-to-date rent expense ledger as of November 30, 2005, and noted that it included transactions related to the three leases during the Audit Test Period, and therefore determined that consistent with FAS 13 and BellSouth's lease accounting policy the three leases were accounted for as operating leases during the Audit Test Period.

APPENDIX A

Results of Agreed-Upon Procedures

Objective III: Determine whether the separate affiliate required under section 272 of the Act has officers, directors, and employees that are separate from those of the BOC.

1. Inquired of the management whether the Section 272 Affiliate maintained a separate board of directors, separate officers and separate employees from BST during the Engagement Period. In response, BellSouth management represented the following:

    - *BSLD maintained a separate board of directors, separate officers and separate employees from BST during the Engagement Period.*

    For BST and BSLD, obtained a list of the names of officers and directors, including the dates of service for each officer and/or board member for the Engagement Period. Compared these lists to historical records of minutes of BSLD and BST Board of Directors' meetings held during the Engagement Period. Also, compared the list of officers and directors of BSLD and BST. Noted that no names appeared on both lists simultaneously.

2. Obtained a list of names and social security numbers of employees of BSLD and BST for the Engagement Period. Designed and executed a program that compared the names and social security numbers of the employees on the BSLD list to the names and social security numbers of the employees on the BST list. The comparison produced no employees that appeared on both employee lists simultaneously during the Engagement Period.

Objective IV: Determine that the separate affiliate required under section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOC.

1. Inquired of the management if BSLD has any debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services entered into or modified during the Audit Test Period. Major suppliers being those suppliers having $500,000 or more in annual sales to the Section 272 Affiliate as stated in the agreement. In response, BSLD management represented the following:

    - *BSLD has never had and does not have any debt agreements/instruments from lending institutions. All credit arrangements with vendors, major suppliers and affiliates are of normal business nature (e.g., net 30 days).*

2. Obtained the three lease agreements with annual obligations of $500,000 or more used in Objective II, Procedure 3. Read the three lease agreements and noted no language in the agreements indicating recourse to BST assets, either directly or indirectly, through another affiliate.

3. As represented in Objective IV, Procedure 1 above, BSLD does not have any debt agreements/instruments from lending institutions and all the credit arrangements with vendors, major suppliers and affiliates are of normal business nature. In addition, none of the leases identified in Objective IV, Procedure 2 were amended/modified during the Engagement Period. Therefore no positive confirmations from loan institutions, major suppliers or lessors were requested or obtained.

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Objective V: Determine whether the separate affiliate required under section 272 of the Act has conducted all transactions with the BOC on an arm's length basis with the transactions reduced to writing and available for public inspection.

Objective VI: Determine whether or not the BOC has accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

1. Obtained the following procedures from BellSouth management that were in place during the Engagement Period and were used by BellSouth to identify, track, respond and take corrective action to competitors' complaints with respect to alleged violations of the Section 272 requirements.

Table 1:
BellSouth Procedures for Handling Section 272 Complaints Filed at State Commissions
• Complainant must serve BellSouth with a copy of complaint being filed at State Commission.
• State Regulatory or State Legal office (varies by state) transmits the complaint to the Headquarter (HQ) Regulatory group and the HQ Legal group.
• HQ Regulatory confirms date BellSouth must respond to complaint based on specific State Commission rules.
• Regulatory Docket Manager logs complaint on Section 272 complaint matrix and ensures that status of complaint is updated throughout the docket process.
• Regulatory Docket Management identifies appropriate Subject Matter Experts (SMEs) based on issues in the complaint and electronically distributes complaint to those SMEs.
• Strategy meetings (held by Regulatory and Legal) are scheduled with appropriate SMEs and held to determine BellSouth position and to gather facts on allegations. Information from these meetings is used for input into complaint response.
• Based on the input from the SME team, Legal drafts a response to the complaint.
• Regulatory distributes draft complaint response to SME team for review and update by Legal as necessary.
• Regulatory sends final response to State Regulatory/Legal for filing with State Commission and service to the appropriate parties of record.
• Regulatory distributes filed response to SME team.

APPENDIX A

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Table 1:
BellSouth Procedures for Handling Section 272 Complaints Filed at State Commissions
• If issues are unresolved and state commission establishes schedule for the complaint, Docket Management schedules strategy meetings (with Legal, Regulatory and SMEs) to select appropriate witnesses and discuss preparation of any required testimony.
• If testimony is required, appropriate SME/Legal assignments are communicated so that testimony drafts are prepared, reviewed and timely filed with the state commissions.
• Once hearing process is complete and Commission renders decision, State Regulatory Docket Management receives and electronically distributes Commission decision (order) to SME team.
• Appropriate meetings are scheduled to discuss any BellSouth action required by the Commission order and to ensure appropriate SME or organizations are charged with implementation responsibility.

Table 2:
BellSouth Procedures for Handling FCC Complaints
• BellSouth DC receives and logs complaint from the FCC.
• Complaint is distributed to BellSouth Legal and Regulatory.
• Regulatory logs complaint on Section 272 complaint matrix, if applicable, and ensures that status of complaint is updated throughout the docket process.
• Regulatory identifies applicable SMEs and distributes complaint to each SME. Regulatory, Legal, and SMEs form Docket Team to respond to complaint.
• Regulatory collaborates with legal counsel regarding BellSouth position.
• Regulatory conducts a Docket Team meeting to develop BellSouth position and to gather input for complaint response.
• SMEs provide additional input and material to Regulatory.
• Regulatory works with legal counsel to prepare response outline and forwards supporting documentation to Legal for preparation of response.
• Legal drafts response and Regulatory distributes to SMEs for feedback for finalization of the response.
• Response to complaint is filed with FCC by BellSouth DC.
• BellSouth complies with the Commission’s rules set forth in 47 C.F.R. for complaints and follows the process above in developing any other complaint responses.

Table 2:
BellSouth Procedures for Handling FCC Complaints
• If the complaint is not settled and Commission renders decision, Regulatory distributes Commission decision (order) to SME team.
• Appropriate meetings are scheduled to discuss any BellSouth action required by the Commission order and to ensure appropriate SME or organizations are charged with implementation responsibility.

Inquired of BellSouth management as to the existence and status of all complaints during the Engagement Period. In response, BellSouth management represented the following:

- *There were no FCC or State complaints filed during the Engagement Period.*
- *There were no State complaints that were open as of the end of the Prior Engagement Period*[11].
- *The FCC complaint described below was filed in the Prior Engagement Period and was reported as open in the Prior Report. This complaint was resolved during the Engagement Period.*

For the one FCC complaint that was reported as open in the Prior Report, obtained documentation as summarized below:

- In Docket No. EB-04-MD-010, AT&T Corp. alleged that BellSouth appeared to be in violation with section 272's discrimination requirements in providing facilities, services or information concerning its provision of exchange access to BSLD versus any other entity. In its Memorandum Opinion & Order released December 9, 2004, the FCC found that BellSouth's Transport Savings Plan (TSP) Tariff violated Sections 272(c)(1) and 272(e)(3) of the Act by discriminating in favor of BSLD.

  In accordance with the FCC's Order, on December 16, 2004, BST filed an FCC No. 1 Tariff revision to eliminate the ability for TSP customers to renew or automatically extend their existing TSP arrangements. This revision was effective December 31, 2004.

  On January 10, 2005, Sprint Communications Co., L.P., filed a Petition for Reconsideration with the FCC.

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11 The "Prior Engagement Period" was May 24, 2003 through May 23, 2005, and was the subject of the Report of Independent Accountants dated October 31, 2005, issued by PricewaterhouseCoopers LLP, and filed with the FCC in EB Docket 03-197 (Prior Report).

The FCC further ordered that BST terminate its TSP Tariff through a tariff revision filed in compliance with relevant requirements of the Commission's rules, effective June 9, 2005. This revision was effective on March 31, 2005.

Pursuant to the FCC Order of December 31, 2004, required tariff revisions were made by June 9, 2005. This issue was resolved with the June 9, 2005 tariff revisions and Management represented that these changes have been closely monitored by BellSouth's legal organization to ensure that the previous practice was not repeated.

2. Obtained from BellSouth management, current written procedures for transactions with affiliates and compared these procedures with the following FCC rules and regulations:

- 47 C.F.R. sections 32.27, 53.203(e), 61.45(d)(1)(v), and 64.901;
- Paragraphs 110, 122, 124, 137, 183 and 265 of the Report and Order in CC Docket No. 96-150, issued December 24, 1996, concerning Accounting Safeguards Under the Telecommunications Act of 1996;
- Paragraphs 180, 193 and 218 of the First Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 96-149, issued December 24, 1996, concerning Non-Accounting Safeguards under Sections 271 and 272 of the Communications Act of 1934, as amended;
- CC Docket No. 00-199, In the Matter of 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; *Report and Order and Further Notice of Proposed Rulemaking*, Appendix F Section 32.27.
- WC Docket No. 03-228, In the Matter of Section 272(b)(1)'s "Operate Independently" Requirement for Section 272 Affiliates; *Report and Order*, Paragraphs 8, 12, 16, 24 and 31

Per review of the procedures obtained above, noted that the policy applies to all business activities and employees at BellSouth including all wholly owned subsidiaries and operations controlled by BellSouth, including BST and BSLD, and that policy refers to the detailed policy on the Company's Federal Financial Compliance internal web site. From the internal Federal Financial Compliance web site, obtained additional policies and procedures addressing transactions between BST and BSLD. Noted that the written procedures addressed all of the FCC rules and regulations listed above except for the section 32.27 requirement that costs related to any regulated facilities transferred to the Section 272 Affiliate be removed from the BOC's interstate rate base, revenue requirements and price caps indices. BST management represented that this requirement is satisfied through the accounting for such transfer and, therefore, no policy statement is required. BST management stated:

- *When an asset is transferred from BST to any party, whether an affiliate or a third party, that asset is no longer on BST's books. Therefore, the impact of that asset is removed from all financial records as prescribed by GAAP.*

3. Inquired how BST and BSLD disseminated the FCC rules and regulations and raised awareness among employees for compliance with the affiliate transaction rules during the Engagement Period. Based on representation from BST and BSLD management, noted the following policies and procedures in place during the Engagement Period:

- During 2005, BST's Federal Financial Compliance Group (FFC) was primarily responsible for affiliate transaction compliance training for the entire corporation. BST's Regulatory and External Affairs Group (R&EA) was responsible for the development of official corporate Section 272 compliance training for all employees.

- BSLD's Business Implementation & Compliance Group (BICG) provided input to the Section 272 compliance training from a BSLD perspective.

- The BSLD finance department and the FFC maintained separate internal web sites that contained the BellSouth Corporate Financial Accounting Policy on affiliate transactions. BST's policy governing transactions between BellSouth's affiliated entities was recorded in Functional Policy 3.1. BellSouth's Corporate Compliance organization also administered general employee awareness programs through such vehicles as BellSouth's NewsSource, an electronic newsletter, on an as-needed basis. Further, compliance managers received emails on an as-needed basis with information to disseminate to their departments. Additionally, there were ongoing awareness campaigns at both BST and BSLD to emphasize regulatory compliance.

- The two primary training courses used to educate BST employees about the accounting principles and rules approved by the Commission were Affiliate Transactions Policy Training and Section 272 Compliance Training.

    - *Affiliate Transactions Policy Training* – Affiliate Transactions Training included an overview of the Telecommunications Act of 1996, identification of a Section 272 affiliate, the structural, accounting and nondiscriminatory compliance requirements, and rules surrounding information sharing and joint marketing. For BST, the on-line version of Affiliate Transactions Policy Training was required annually for all active mid-management level managers and above, and designated employees below this level. Designated employees were determined by their compliance coordinator as those most likely to interact with affiliates. Additionally, the FFC Group could also determine that an employee was required to complete the Affiliate Transactions Policy Training. Live courses were also offered on an "as requested" basis and for certain audiences. For BSLD, on-line Affiliate Transactions Policy Training was required for all managers and designated additional personnel. Live training was offered on an "as requested" basis.

  - *Section 272 Compliance Training* – The Section 272 Compliance Training was administered online, via hard copy, and/or in-person and covered the Section 272 requirements that govern the relationship between BSLD and BST, and the importance of compliance with these requirements. Section 272 Compliance Training was required annually for all BST and BSLD employees. For any new customer operations unit employee, Section 272 Compliance Training was included in the initial training package and was to be completed prior to engaging in any activity involving the BST/BSLD relationship. Records of all employee training were electronically retained and monitored to ensure completion on a timely basis.

- It was BST and BSLD policy that all employees were required to complete Section 272 Long Distance training annually. Employees of BST and BSLD could also obtain information about Section 272 compliance from their respective regulatory and legal staffs. Affiliate Policy Transactions Training was required of all new employees in the targeted audience (ex. Finance and Procurement); training for the entire targeted audience was repeated periodically.

- FFC and BICG oversaw compliance with FCC rules and regulations at BST and BSLD, respectively. In addition, many business units that entered into affiliate transactions had a compliance officer on staff with direct contact with FFC and/or BICG. Both BST and BSLD employees responsible for affiliate transactions received the names of affiliate transaction subject matter experts via the web-based training, the intranet and various awareness campaigns. Contact information was also included in the Section 272 training.

Obtained a listing of BellSouth employees responsible for the development and recording of affiliate transactions. From the list, judgmentally selected 12 employees to interview to determine their knowledge of FCC Rules and Regulations governing affiliate transactions. The employees selected worked for the following BellSouth entities:

Table 3
Employees Interviewed Regarding Affiliate Transaction Rules Awareness

Affiliate	# of Employees Interviewed
BellSouth Telecommunications, Inc.	5
BellSouth Affiliate Services Corporation	1
BellSouth Technology Group, Inc.	1
BellSouth Corporation	1
BellSouth D.C., Inc.	1
BellSouth Enterprises	1
BellSouth Intellectual Property Management Corporation	1
BellSouth Long Distance, Inc.	1

Conducted phone interviews with each of the 12 employees during May 2007 and noted that they demonstrated knowledge of the FCC's affiliate transaction rules based on their responses to the questions noted below:

- Are you responsible for the development and recording of affiliate transactions costs in the books of record of the carrier?
- Are you aware of the FCC's guidelines for developing and recording of affiliate transactions? If so, what are the FCC's guidelines?
- Are you aware of BellSouth's guidelines for developing and recording of affiliate transactions? If so, what are BellSouth's guidelines?
- How did you become aware of the FCC Rules and Regulations and BellSouth's guidelines? What training did you complete?

4. Obtained a listing of 53 written agreements, amendments and addenda (collectively "agreements") for services and for interLATA and exchange access facilities between BSLD and BST which were in effect at the end of the Audit Test Period. Inquired as to whether any nontariffed services were provisioned during the Audit Test Period without a written agreement. In response, BellSouth management represented the following:

- *During the Audit Test Period, no nontariffed services were provisioned between BST and BSLD without a written agreement.*

a. Obtained a listing of 18 additional agreements that terminated during the Audit Test Period and noted the termination dates within the Audit Test Period. Management represented that 16 state-specific interconnection agreements were terminated prematurely on August 17, 2005. These 16 agreements were replaced with one consolidated Interconnection Agreement that was executed on July 18, 2005, and became effective on August 17, 2005.

b. Obtained a listing of 10 written agreements that became effective during the Audit Test Period. Since only 10 agreements became effective during the Audit Test Period, obtained copies of all 10 written agreements.

5. For the 10 agreements obtained in Procedure 4.b. above, viewed the agreements posted on the Company's web site[12], and compared the prices, terms and conditions of services and assets shown on this site to the agreements obtained in Procedure 4.b. Noted that the information provided on the Internet for each agreement was sufficient in detail to allow evaluation for compliance with accounting rules as documented in Docket No. 96-150, Report and Order, paragraph 122. Specifically, disclosures on the Internet included a description of the rates, terms, and conditions of all transactions, as well as the frequency of recurring transactions and the approximate date of completed transactions.

   On May 1, 2007, visited the BST central file location at 675 W. Peachtree Street, Atlanta, Georgia 30375, and physically inspected the 10 agreements. Noted that all agreements were available for public inspection. Also noted that there were no differences between the agreements available for public inspection and the agreements obtained in Procedure 4.b. The Company made no claims to confidentiality with respect to the agreements between BST and BellSouth Long Distance.

   For the 10 agreements, documented the date that the agreement was signed and the date that the services were first rendered under the agreement and determined the effective day of the agreement as the earlier of these two dates. Compared the effective date of each agreement to the agreement's posting date obtained from the confirmation email sent from BellSouth's web posting software. Noted that all 10 agreements were posted to the Internet within 10 days of their effective date.

   Documented in the working papers, the Company's procedures for posting Section 272 Affiliate transactions on a timely basis.

[12] http://bellsouth.mediaroom.com/index.php?s=policy

6. Obtained a listing of all nontariffed services rendered by BST to BSLD, by month, during the Audit Test Period. Determined which of these services were made available to both BSLD and to third parties.

   a. Noted that Joint Marketing was the only service made available to BSLD that was not made available to third parties during the Audit Test Period. Randomly selected one month, June 2005, during the Audit Test Period. For June 2005, obtained the billing records for the entire month. Noted that there was one Joint Marketing invoice with two Joint Marketing transactions included in the June 2005 billing records. As there were only two Joint Marketing transactions on the invoice, selected both transactions for testing. For each transaction, determined compliance with section 32.27 of the Commission's Rules by comparing Fully Distributed Cost (FDC) to Fair Market Value (FMV). Per discussion with Management, noted that BST bills and records Joint Marketing at FMV then makes an adjustment to increase to FDC if necessary. Noted that for the two transactions tested, FDC was less than FMV for June 2005 and, therefore, no FDC adjustment was necessary.

      For the two billing transactions selected above, tested each billing transaction for the proper application of billing rates, including all applicable discounts, surcharges, late fees, etc. Obtained the FMV study, FDC rate, Joint Marketing Agreement and billing calculation. Noted no difference between the rates listed in the FMV study to the rates used in the two billing transactions.

      For the selected transactions, requested the Prevailing Market Price (PMP), FDC and FMV pricing support. Management represented:

      - *All sales by BST/BSLD transactions are at the prevailing market price (PMP/EFMV) because CC Docket 96-150, paragraph 137 – "We allow one exception to our (market rate) rule….Because the rates for services subject to section 272 must be generally available to both affiliates and third parties, we adopt a rebuttable presumption that these rates represent prevailing company prices."*
      - *PMP for BST's joint marketing continues to be higher than FDC.*

      Obtained an excerpt of the BST June 2005 revenue journal, noting that the transactions were properly recorded as revenue. Noted that BST was unable to obtain evidence of BST recording the payment of the invoice due to the age of the invoice and the reorganization of the Company subsequent to the AT&T acquisition.

Additionally, tested that the two transactions were properly recorded as expense by BSLD, and that the same amount was paid by BSLD. Noted no differences between the recorded and paid amounts.

b. From the services made available to both the Section 272 Affiliate and to third parties, determined the following 10 services had the highest billing volume in dollars over the Audit Test Period that were billed to BSLD:

- Billing and Collection (B&C)
- Collocation
- National Directory Assistance (NDA)
- BellSouth Technology Assessment Center (BTAC)
- Translation and Surveillance
- Trouble Reporting
- Regulatory, Legal, and Other
- International Call Reports
- Mechanized Automated Message Accounting Testing & Validation Coordination (MATV) Services
- Subscription Fraud Information Sharing

Randomly selected the month of June 2005 from the Audit Test Period. Obtained the BSLD billing records for the ten services listed above for June 2005 from BST. For each service, determined the number of billing transactions included in the June 2005 billing records. Noted that the following services had less than six billing transactions in the June 2005 billing records:

- BTAC - one transaction
- Translation and Surveillance - three transactions
- Trouble Reporting - one transaction
- Regulatory, Legal and Other - one transaction
- International Call Reports - one transaction
- MATV services - no transactions

For the services listed above, selected all June 2005 transactions for testing. For Billing and Collection, Collocation, NDA, and Subscription Fraud Information Sharing services, randomly selected six billing transactions from the June 2005 transactions for testing. In total, 31 transactions from June 2005 billing records were selected for testing.

For the 31 billing transactions selected, tested each for the proper application of billing rates by BST, including all applicable discounts, surcharges, late fees, etc. Noted that all 31 transactions were billed by BST to BSLD in compliance with section 32.27 of the FCC's rules.

For 30 of 31 billing transactions selected, also obtained documentation indicating that the transaction was properly recorded as revenue by BST. No differences were noted. For one of the 31 billing transactions, BST was unable to locate documentation indicating that that the International Call Reports transaction for $112,500 was properly recorded as revenue.

Additionally, for 30 of the 31 billing transactions selected, inspected documentation indicating that payment of the transaction was recorded by BST. The documentation inspected included BST's accounts receivable records and copies of all relevant screens/summaries were obtained for the workpapers. No differences were noted. For one of the 31 billing transactions totaling $109,600, for BTAC services, BST was unable to locate documentation supporting that payment for this transaction was recorded by BST.

For the 31 billing transactions selected, obtained documentation from BSLD indicating that the transactions were properly recorded as expense by the Section 272 Affiliate, and that the same amount was paid by the Section 272 Affiliate. No differences were noted.

7. Obtained the listing of all services rendered by month by BSLD to BST during the Audit Test Period. Noted there were two main services provided, Corporate Communications and Voice over Internet Protocol (VoIP). Within these two services, there are several classifications used to bill the customer based on the origination and termination of the call, along with other features requested by the customer. BSLD Management indicated that FMV was used in determining the unit prices charged to BST. Obtained a copy of the FMV study and contract between BST and BSLD in place during the Audit Test Period. Compared the rates listed in the contract to the rates in the FMV study and noted that rates listed in the FMV study agreed with the rates in the contract.

   a. Requested additional information from BSLD in order to determine the 10 services with the highest billed volume during the Audit Test Period. BSLD Management represented that they do not track the dollar amounts associated with each service because of system limitations. Randomly selected November 2005 from the Audit Test Period and obtained a list of all accounts billed from BSLD to BST for that month. From the list of accounts, randomly selected 60 accounts for testing. Noted that all 60 accounts selected were billings of Corporate Communications services. Obtained the call detail report (CDR) for all 60 accounts for the month of November 2005. The CDR lists each call made during the month, the duration of the call and the amount charged. Verified the total charges listed on the CDR were the actual charges included on the selected invoice. From the CDR, selected the largest charge and recalculated it using the rates extracted from the contract obtained above. Noted the following:

- For one of the 60 transactions, noted a difference related to the application of a $0.25 surcharge for calling card services.
- For 10 of the 60 transactions, the recalculated amounts differed only due to rounding of the incremental segments.
- For two of the 60 transactions, the recalculated amounts differed only due to subroutine rounding within the billing calculations.
- For 47 of the 60 transactions, the recalculations were performed without exception.

Also haphazardly selected six circuits from the VoIP service invoice (one invoice, bringing the total number of transactions tested to 66 and the total number of invoices to 61) for November 2005. Obtained the VoIP contract and agreed the rates charged for each of the selected circuits. No differences were noted.

For the selected transactions, requested the Prevailing Market Price (PMP), FDC and FMV pricing support. Management represented:

- *CC Docket 96-150, paragraph 137 – "We allow one exception to our (market rate) rule….Because the rates for services subject to section 272 must be generally available to both affiliates and third parties, we adopt a rebuttable presumption that these rates represent prevailing company prices."*
- *All sales by BST/BSLD transactions are at the prevailing market price (PMP/Estimated FMV).*

For the 66 transactions on 61 invoices tested above, also checked for any "chain"[13] transactions. No chaining was noted. Also obtained the following representation from BSC Management:

[13] Chaining could occur when a Section 272 Affiliate provides an asset or service to a BOC/ILEC that was originally obtained from another nonregulated affiliate, including if the Section 272 Affiliate obtained a product or service that was used to create the asset or service being provided to the BOC/ILEC. In such chain transactions, the Section 272 Affiliate must charge the lower of FDC or FMV of the original nonregulated affiliate unless there is a prevailing market price. The costs recorded by the BOC/ILEC must reflect the actual costs the originating affiliate incurred in creating the asset or providing the service unless

- *None of the financial transactions examined in this procedure that represent goods or services sold by BSLD to BST during the Audit Test Period involve any chaining of costs.*

b. For the 66 transactions (on 61 invoices) tested above, obtained documentation from BSLD's Tapestry billing system that indicated that all 61 invoices were recorded as revenue by BSLD. Also obtained a listing of payments received by BSLD from BST related to the 61 invoices tested and compared the invoice amount billed (and recognized as revenue) to the amounts paid by BST. Noted the following:

- For 56 of the 61 invoices, noted no differences between BSLD's invoice balance due and the amount paid by BST.

- For one of the 61 invoices, based on information from BSLD Management, noted that the charges were incorrectly billed to account 23001 and should have been billed to account 23351 (BASC) account. A balance transfer was processed in March 2006, moving this amount to the correct account 23351 and clearing the balance due from account 23001.

- For four of the 61 invoices, noted that the payments were never made on these invoices and the amounts are still outstanding on BSLD's accounts receivable aging. The four invoices outstanding total $26.50.

8. Using the balance sheet information and the detailed asset listing of assets added during the Audit Test Period, obtained in Objective I, Procedure 4, performed the following:

   a. Reviewed the detailed listing of asset additions during the Audit Test Period, and noted that none of the items were purchased or transferred directly from BST.

   b. Noted that one of the assets added during the Audit Test Period was a capitalized maintenance contract purchased from nonregulated affiliate, BellSouth Communication Systems (BCS). Regarding this asset, BellSouth Management represented:

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the originating affiliate had established a prevailing market price.

- *The selected invoice from BCS to BSLD covers maintenance services. There was no physical asset transferred. BCS has its own technicians that perform these maintenance services. BST technicians are not used by BCS for these functions. Therefore, the origination of this service is solely with BCS.*

BSLD retired this asset in January 2007. Obtained BLSD's retirement journal entry from January 2007 that included this asset.

c. Reviewed the detailed listing of asset additions during the Audit Test Period, and noted that there were no items purchased or transferred directly from BST or through another affiliate, therefore this procedure is not applicable.

9. Requested a detailed listing of fixed assets which were purchased or transferred from BSLD to BST during the Audit Test Period. In response, BellSouth management represented the following:

- *BST did not purchase or transfer any fixed assets from BSLD during the Audit Test Period.*

10. Obtained a list of services priced pursuant to section 252(e) contained in the two interconnection agreements between BST and BSLD effective during the Engagement Period. BST Management represented that BSLD bought no services during the Engagement Period under statements of generally available terms pursuant to Section 252 (f).

Obtained and noted that the two BSLD interconnection agreements included attachments that listed rates for the services that were: (1) ordered by the state regulatory body as part of an unbundled network element (UNE) proceeding, (2) approved by the appropriate regulatory body as part of a BST tariff, or (3) developed through a cost study and included in the interconnection agreements approved by various state regulatory bodies.

Obtained the population, an extract from the Carrier Access Billing System (CABS), of all monthly recurring charges and other current charges for all nine states during the Engagement Period billed from BST to BSLD pursuant to the two interconnection agreements obtained above. Included in the population were circuits billed from the interconnection agreement, contract identifiers, the related Basic Class of Service (BCS)/Universal Service Order Codes (USOC), the full rate (the rate per tariff/contract), and the billed rate (rate per customer invoice). Randomly selected 60 services from this population.

For each of the 60 services selected, compared the Full Rate for each monthly recurring charge and other current charge for interstate, intrastate and local to the rate listed on the BellSouth Interconnection web site,[14] and to the interconnection agreement attachments obtained above.

Noted that the Full Rates applied depended on the quantity of the USOC ordered by the customer and the ratchet factor (RAF). For the 60 services tested, after applying the quantity and RAF to the Full Rate, no differences were noted in the billed rates.

Also compared the Local billed USOC for each of the 60 services to the rate section of the interconnection agreements obtained above. No differences were noted.

11. Requested details about whether BST sold or transferred any part of its Official Services network to BSLD during the Engagement Period. In response, BellSouth management represented the following:

- *BST did not sell or transfer any part of the Official Services Network, also known as the BellSouth Corporate Network, to BSLD, during the Engagement Period.*

[14] http://wholesale.att.com/alerts_and_notifications/index.html

APPENDIX A

Results of Agreed-Upon Procedures

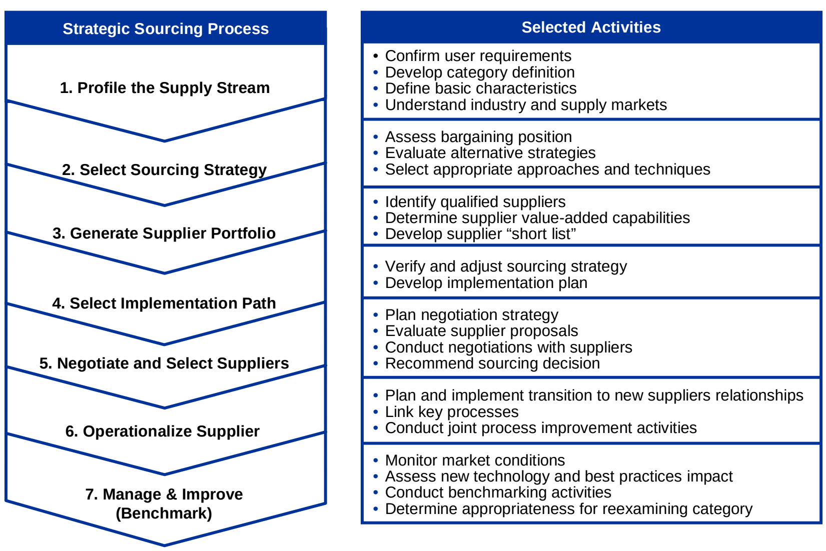
Objective VII: Determine whether or not the BOC has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities and information, or in the establishment of standards.

1. Obtained and reviewed BST’s written procurement procedures, practices, and policies in place during the Engagement Period. Reviewed the procurement process overview for any stated purchasing preferences and noted no stated purchasing preferences towards the Section 272 Affiliate.

   Obtained the written procurement process overview which describes the bidding process, selection process, and how BellSouth disseminates requests for proposals to affiliates and third parties. From the process overview, noted that BellSouth uses Supply Chain Services (SCS), a consolidated entity created to develop and manage all of BellSouth’s sourcing decisions.

   From the procurement procedures and policies obtained, noted that BellSouth has implemented the following seven-step procurement process:

Each sourcing supply stream (category) goes through the seven-step methodology



   BellSouth management represented the following, regarding the dissemination of requests for proposals (RFPs) to affiliates and third parties:

   - *SCS prepares and issues Request-for-Proposals (RFP’s) to the suppliers. RFPs are issued via an electronic sourcing tool (Perfect Commerce Event Manager). The suppliers’ proposals are analyzed and the team narrows* *the list of suppliers that may enter into the next step of negotiations. The process continues until agreement is reached between the company and the supplier.*

2. Requested BST's procurement awards to BSLD during the Audit Test Period. In response, BST management represented the following:

   - *There were no procurement awards given to the Section 272 affiliate (BSLD) during the Audit Test Period.*

3. Obtained a list of all goods, services, facilities and customer network services information, excluding CPNI as defined in Section 222 (f) (1) of the Act and exchange access services and facilities inspected in Objective IX, made available to BSLD by BST during the Engagement Period. Also obtained a summary of the agreements for these goods, services, facilities, and customer network services from the BellSouth MediaRoom web site at:

   http://bellsouth.mediaroom.com/index.php?s=publicpolicy&item=71.

   BST has represented that the media used to inform unaffiliated entities of these services is this web site, which contains a listing of services provided under tariff, contracts and affiliate agreements. Noted all agreements that were terminated were also found on the web site

   http://bellsouth.mediaroom.com/index.php?s=publicpolicy.

   BSC Management represented that the primary media used to make exchange access services and facilities available is the Bellsouth Internet site www.interconnection.bellsouth.com (Interconnection web site). For BellSouth.net FastAccess service, noted the pricing is available on the Interconnection web site. Noted that the remaining media refers the unaffiliated entity to the Interconnection web site or their Account Representative for pricing.

   BST Management indicated that all such services were made available to affiliates and nonaffiliates alike in a number of publicly accessible scenarios.

4. Obtained a list of all goods (including software), services (excluding joint marketing services, exchange access services and interLATA services), facilities and customer network services (excluding CPNI) that were purchased during the Audit Test Period from BST by both an unaffiliated entity and BSLD.

   a. From the list obtained, determined the following 10 goods/services billed to unaffiliated third parties had the highest total billing volume in dollars.

APPENDIX A

Results of Agreed-Upon Procedures

Table 4
Top Ten Services Selected for Testing in Objective VII, Procedure 4
Flat Rate Residence Lines
Flat Rate Business Lines
BellSouth.net FastAccess
TouchStar®
Primary Rate ISDN
BellSouth Centrex
MegaLink® Service
Business Plus*/Business Choice*
Custom Calling Features
Expanded Area Calling – Business

Determined from information provided by BST management that all of the services listed in the table above were billed to both BSLD and unaffiliated third parties from BST's Customer Record Information System (CRIS).

b. All 10 services listed in Table 4 above are billed from the same system for both BSLD billings and billings to unaffiliated third parties. For these 10 services, performed the following:

1. For CRIS, obtained the BellSouth Telecommunications Revenue Process Level Workflow document (BST Revenue Workflow) that includes system and process descriptions of key controls, specifically the controls over rate updates, bill verification, and journalization in place during the Audit Test Period. Table 5 below summarizes the key controls over rate updates, bill verification, and journalization controls within CRIS as described in the BST Revenue Workflow:

Table 5:
Summary of CRIS Billing Controls from BST Revenue Workflow
1. Rate Updates
• To help verify the accuracy of rate changes, all rates entered into rate interfaces require a peer review. This control is evidenced either by review or approval within the system.
2. Bill Verification
• The service order sample verification, for example, is end-to-end regression testing that includes complete

Table 5:
Summary of CRIS Billing Controls from BST Revenue Workflow
computation of the bill, a validation of each section of the bill and verification to ensure the CRIS cycle is processing as expected and that appropriate rates are being applied. Bills used in the service order sample process are selected based on sample criteria and are identified as the service orders post or update accounts in CRIS. Each sample criteria must be verified at least once monthly. Samples which cannot be verified must be substantiated by documentation. This process is evidenced by a completed and reviewed checklist maintained by the Bill Verification supervisor.
3. Journalization
• To help verify that accounts receivable information balances, the financial database (FDB) compares the previous day's ending accounts receivable, plus billing amount, less customer payments received, and plus/minus any adjustments to the subsidiary ledger's accounts receivable balance. If this amount does not balance, then FDB generates an error report that is reviewed and corrected by Revenue Analysis Operations (RAO) clerks. This control is evidenced by the RAO clerks' accounts receivable reconciliations.
• FDB reads the trailer of the daily data feeds and compares the total amount in the detail file, by Central Office, to the balance record, Central Office. If these amounts do not match, by Central Office, FDB creates a fictitious account code, places an amount equal to the difference in the account, and generates an error report that is reviewed and corrected by RAO clerks. This control is evidenced correcting manual entry documentation from the RAO clerks.
• FDB compares the key data fields in the all data feeds received to the key data fields found in Revenue Directory to help verify the validity of the data and proper account coding. These errors are investigated and corrected by RAO clerks. This control is evidenced by the error report for any nonvalidated key data fields received from the billing systems.

APPENDIX A

Results of Agreed-Upon Procedures

Table 5:
Summary of CRIS Billing Controls from BST Revenue Workflow
• Manual entries to FDB that require approval due to dollar amount are approved via e-mail or a signed written approval according to the manual entry threshold policy. The threshold for clerks is set at $100,000.
• Manual entries to the PeopleSoft general ledger that require approval due to dollar amount are approved via e-mail or a signed written approval according to the manual entry threshold policy. The threshold for clerks is set at $100,000.
• Each RAO clerk maintains a Teamwork spreadsheet, which lists recurring manual entries to FDB. When a clerk completes his or her Teamwork spreadsheet, he or she submits it to the RAO accounting manager for review.
• The Senior Accountant maintains a checklist to track the receipt, submission, errors, acceptance and resubmission of batches for all journal interface gateway files. This control is evidenced by the completion of the Excel spreadsheet with the monthly checklist.

2. Randomly selected one unaffiliated third-party invoice and BSLD invoice for each of the 10 services listed in Table 4 above.

   i. Traced the 10 third-party invoices and the 10 BSLD invoices to the CRIS billing system to confirm that each transaction was billed from the same system.

   ii. Compared the rates for the service selected in Table 4, determined by USOC, on the 10 third-party invoices to the rates for the same USOC on the 10 BLSD invoices. Noted no differences.

c. As noted in Step b. above, BST bills the 10 goods/services listed in Table 4 above to both BSLD and unaffiliated third parties through the same system, CRIS, therefore, this procedure is not applicable.

d. Obtained the BellSouth Purchasing/Accounts Payable (AP) Process Level Workflow and the BellSouth Purchasing and AP Control Matrix. BSLD management represented the following regarding the application of the purchasing and accounts payable procedures:

- *BSLD is considered a nonregulated affiliate and adheres to the nonregulated accounts payable processes and controls. All nonregulated affiliates use the Oracle AP platform.*

- *BSLD considers and treats BST as an external vendor when following these processes and controls.*

From the BellSouth Purchasing/AP Process Level Workflow and the BellSouth Purchasing and AP Control Matrix, noted the following accounts payable processes related to BSLD that were in place during the Audit Test Period:

- The majority of the payments processed through Oracle are manual invoices. The manual invoice process begins when field office personnel receive an original invoice.
- The invoice is physically stamped, and account coding information and certifier signature is documented on the invoice.
- The field office personnel key the invoice header and distribution information into Oracle AP, prints the invoice barcode cover pages, and faxes the barcode with the invoices to the BellSouth Affiliate Services Corporation (BASC) image server.
- The invoice image automatically attaches to the Oracle record and is work-flowed to the keyer’s supervisor.
- The supervisor reviews the invoice coding and approves or rejects it.
- If approved, it is routed to BASC for further editing, is processed through the tax calculation program, is journalized, and payment is issued.

From the BellSouth Purchasing/AP Process Level Workflow and the BellSouth Purchasing and AP Control Matrix, noted the following accounts payable controls related to BSLD that were in place during the Audit Test Period:

- The Oracle Help Desk assigns Oracle access level based on the approved responsibility level from access form. In addition, Oracle AP access is reviewed annually for all system access and responsibilities.

- The ability to add vendors is limited to BASC AP and BASC TAX. Field employees who enter invoices do not have access to enter suppliers or invoice receipt information.
- Oracle is configured to prevent duplicate invoices from being keyed into the system (checks for duplicate invoices and vendors).
- All new trade vendors for manually input vouchers must be validated to ensure they are legitimate and back up documentation is maintained in the imaging system. Vendor validations for mechanized feed vouchers are the responsibility of the field offices.
- Only authorized personnel can approve vouchers in Oracle. All approvers are BellSouth management employees.
- AP personnel review the Invoice On-Hold report daily after the nightly voucher processing. Invoices on hold are not paid until discrepancies are resolved and updated in the system.

5. Obtained information dissemination procedures in place during the Engagement Period from BST. Noted that during the Engagement Period, BST disseminated information about network changes, the establishment or adoption of new network standards, and the availability of new network services to the Section 272 Affiliate and to unaffiliated entities through two general types of notifications, Carrier Notification Letters (CNLs) and Network Notifications. Noted that the procedures were the same for notifications to BSLD and notifications to unaffiliated entities. The notifications were made available for viewing at BellSouth's carrier web site, www.interconnection.bellsouth.com. Both CNLs and Network Notifications were managed on a regional basis by the Interconnection Services group.

6. Obtained and inspected scripts that BST's customer service representatives recite to new customers calling, or visiting customer service centers, to establish new local telephone service or to move an existing local telephone service within the BOC in-region territory. Per review of these scripts, noted that they contained (a) language that attempts to sell interLATA services; (b) language that informs the consumers that there are other providers of interLATA services, and (c) language offering to identify other providers to the consumer if they are interested.

   Obtained screenshots of BST's online ordering options for consumer and small business customers related to new service and move service. Noted that screenshots obtained included language that informed consumer and small business customers that there are other providers of interLATA services. Also noted that consumer and small business customers have the option to view a list of available providers online. Noted online ordering of new and transfer service for large business customers is not available.

7. Obtained documentation regarding the methods and controls that are in place to ensure that the customer service associates (CSAs) provide equal access (EA) notification when interLATA service is offered. Noted the following methods and controls included in the documentation:

    - Methods and Procedures for EA requirements are documented in ORBIT, an online web-based reference tool available to the CSAs.
    - The regional ordering system (ROS) contains a pop-up reminder notice to CSAs to deliver the Equal Access script to the customer.
    - BellSouth Business Systems Performance Management utilizes CSR performance appraisal plans to provide a systematic approach to gathering and rating data on behaviors, competencies and skills, while providing the context for scheduled objective feedback.

    Reviewed the script for BellSouth's EA notification and noted that it informs callers that they have a choice to select the interLATA services provider, that there are other providers of interLATA services, and offers to read the list of providers, along with the interLATA service affiliate.

    The EA documentation indicated that BST monitors and assesses CSAs' adherence to the EA notification requirement through a web-based system and through individual observations. The Center Process Analysis Team (CPAT) uses a web-based system to monitor CSR calls related to consumer and Small Business Services (SBS) services. Obtained the referral form and monitor instructions from the web-based system used by CPAT and noted that they included the following referral type "11. Failure to read the Equal Access script verbatim on appropriate contacts."

    Noted from the EA documentation obtained that observation forms are used by managers in Consumer Acquisition, Consumer Sales and Support, and SBS. Obtained the example observation forms, and noted that it included evaluation criteria for compliance with the EA notification.

8. From documentation provided by BST management, identified the following inbound telemarketing controls related to section 272 compliance:

    - BellSouth management represented the following related to inbound telemarketing provided by third-party contractors:

        - *SBS has never used third-party contractors for inbound telemarketing. The Consumer group has never used third-party contractors for inbound telemarketing issuance for new or transfer orders. BST's inbound telemarketing contractors (that are used for other types of orders) did not* *have access to systems that would provide them the ordering capability to negotiate an order for new local service or to transfer existing BellSouth local service to a new address. The third-party contractors were unable to take or place these types of orders. BST's inbound telemarketing contractors only had access to systems with change order functionality.*

- When an incoming call was received in the Consumer Inbound Telemarketing Call Center and the customer requested new local service or a transfer of existing local service, the third-party vendor agent, who was unable to process such a request, used the following script:

  "I'm sorry, the number you have dialed is for (product or services being marketed) only. For other services, you may call your local BellSouth Business Office. I would be happy to sign you up today for (product or service being marketed) and tell you about some great new plans that could save you money, is that ok?"

9. Requested contracts between BST and third-party telemarketing contractors related to section 272 compliance. In response, BST Management provided no applicable contracts and represented the following:

   - *SBS has never used third-party contractors for inbound telemarketing. The Consumer group has never used third-party contractors for inbound telemarketing issuance for new or transfer orders. Third-party contractors are used for direct mail promotions (ex., a customer received an advertisement in the mail for DSL and called the number on the flier, that number is directed to a third-party contractor).*

10. Requested revisions to the section 272 training for employees of BSC, including employees of BST, BSLD and third-party telemarketing vendors made during the Engagement Period. In response, BellSouth Management represented the following:

    - *BellSouth did not revise the section 272 training package for employees of BellSouth Corporation during the Engagement Period including any changes to the mastery test. The completion of the mastery test is required before an employee's records indicate that they have completed the course and as such all employees tracked as "complete" have taken the 'Mastery Test'.*

    Obtained documentation from BST Management that indicated that in 2005, 64,472 employees completed the Long Distance training including the mastery test and as of November 30, 2005, there were 63,349 employees on the payroll.

The number of employees completing the training in 2005 is higher than the number of employees on the payroll at November 30, 2005, due to the churn of personnel. In addition, 2,212 contract personnel completed the Long Distance training in 2005. The ‘Mastery Test’ at the end of the section 272 training course requires that a student complete the test (answer each question). However, there is no minimum threshold of correct answers in order for the course to be considered complete. BellSouth does not track the actual “grade” of the students.

BellSouth Management indicated the following related to the 2005 results of 272 training:

- *Each department tracks their employees sections 272 training completions and is urged to have 100% successful completions. Departmental results are tracked at officer level and reported through the Corporate Compliance Committee. The reported completion rates by officer in 2005 were:*

    - *Network* *98%*
    - *Retail/Business* *96%*
    - *Intellectual Property & Planning* *99%*
    - *Human Resources* *100%*
    - *Corporate Security* *98%*
    - *Finance* *98%*
    - *Information Technology* *99%*
    - *Advertising & Publishing* *98%*
    - *Regulatory/External Affairs* *100%*

11. Related to requirements in paragraph 11(a) of the Consent Decree in FCC 03-174 released July 17, 2003, performed the following:

    a. Obtained written confirmation from BellSouth Legal that BellSouth complied with the separate affiliate requirements set forth in 47 U.S.C. 272 including section 272(d) until such time as each of the nine states in BellSouth’s region was relieved from the requirements, and agreed that BellSouth will be subject to enforcement proceedings for noncompliance with section 272 that occurs after July 13, 2003, in any of the nine states in BellSouth’s region until such time as each of the nine states in BellSouth’s region was relieved from the requirements.

    b. Obtained written representation from BellSouth Management that during the Engagement Period:

- *BellSouth continued to use a centralized Small Business Compliance Group to monitor and evaluate compliance obligations for BellSouth small business employees. BellSouth did not use small business third-party telemarketing vendors during the Engagement Period.*

The Compliance Group's certification program and tracking mechanism to ensure that all small business training programs were completed in a timely manner during the Engagement Period is documented in Procedure 10 above.

Objective VIII: Determine whether or not the BOC and an affiliate subject to section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates.

1. Obtained documentation (included in the workpapers) of BST's practices and processes in place during the Engagement Period to fulfill requests for telephone exchange service and exchange access service for BSLD, BST and other BOC affiliates, and nonaffiliates in each state where BST has been authorized to provide in-region interLATA services[15]. Noted from review of the documentation that the same practices and procedures are applied to requests for telephone exchange service and exchange access service for 272 affiliates and nonaffiliated carriers.

   Obtained from BST Management the following descriptions of internal controls and procedures in place to meet its duty to provide nondiscriminatory service:

   - Functional Policy 3.1 articulates the requirements associated with affiliate transactions. This policy applies to all business activities and employees at BellSouth including all wholly owned subsidiaries and operations controlled by BellSouth. BellSouth adheres to all state and federal laws and regulatory requirements concerning transactions between affiliates. Additional information regarding this policy can be found at

     http://user2.home.bst.bls.com/~FFC/Affiliate%20Transactions.html.

   - All transactions that occur directly between the regulated operations of BST and its nonregulated affiliates, as well as transactions between other BellSouth nonregulated affiliates which directly or indirectly affect BST's expenses or investments, must be identified, approved, documented and accounted for properly. The identification, approval and documentation of every affiliate transaction must be made prior to the provision of the product and/or service or before the transfer of any assets or employees between BellSouth affiliates. It is the responsibility of the entity providing the product and/or service or implementing the transfer to notify BellSouth Finance and Legal

[15] As of December 19, 2002, BST was authorized to provide in-region interLATA services in all nine states in the BellSouth region and pursuant to a consent decree entered into between BST and the FCC in July 2003, the section 272 requirements will sunset in all nine states in the BellSouth region at the same time on December 19, 2005. Therefore, for this procedure and all other procedures in this objective, the scope of the procedures will include all nine states for the Engagement Period.

Departments to initiate the approval process. Approval must include the signatures of the affiliate Chief Financial Officer, affiliate chief legal counsel, BellSouth Assistant Vice President and Controller and appropriate BellSouth legal counsel. It is also the responsibility of the entity to maintain the required documentation for five years.

- If the affiliate transaction involves the Section 272 Affiliate, there must be a contract between the associated entities. When a contract is executed, it is posted to the public policy web site within 10 days. Recurring and nonrecurring charges are specified in the contract and referenced in the "transaction summary" when posted. All Contracts between BST and BSLD can be found at:

  http://bellsouth.mediaroom.com/index.php?s=publicpolicy&cat=1.

- All employees are required to complete 272 compliance training, which aims to raise employee awareness of the requirements of section 272 of the Telecommunications Act of 1996.

- Additional information concerning BellSouth's policy on identification, approval, documentation and accounting for affiliate transactions can be found on the Federal Financial Compliance Website located at http://user2.home.bst.bls.com/~FFC/index.html.

- The BST's BSLD account team uses the following resources to ensure section 272 compliance when providing service to BSLD:

  - Sells products and services to BSLD out of the publicly listed Tariff.

  - All account team members are required to successfully complete 272 compliance training.

  - BSLD must use the BSLD account team as its single point of contact for requesting products and services. All other IXC carriers in the Interconnection division have account teams that serve as their single point of contact as well.

2. Obtained and documented in the working papers, the processes and procedures followed by BST to provide information regarding availability of facilities used in the provision of special access service to BSLD, BST and other BOC affiliates and nonaffiliates during the Engagement Period. Noted from the documentation obtained that the information regarding the availability of facilities used in the

provisioning of special access services to all affiliated and nonaffiliated carriers is provided through BST's Common Access Front-end (CAFÉ) system, which can be accessed by all BST interconnection customers. Access Service Request (ASR) forms are submitted electronically through the CAFÉ system, which then automatically generates a service availability inquiry. Once this inquiry is received by the Account team, a service availability request is then submitted to the Circuit Capacity Management group in the appropriate state.

Additionally, BST Management represented the following:

- *During the Engagement Period, employees of BSLD or BST and/or other BOC affiliates did not have access to, or have not obtained information regarding, special access facilities availability in a manner different from the manner made available to nonaffiliates.*

3. Obtained *Service Quality Measurement plan, Version 1.07* (SQM) as the written methodology related to BST's procedures to document time intervals for processing orders (for initial installation requests, subsequent requests for improvement, upgrades, or modifications of service, or repair and maintenance), provisioning of service, and performing repair and maintenance services for the Section 272 Affiliates, BOC and other BOC affiliates and nonaffiliates for the services described in the Procedure 4 below.

Based on review of the SQM, noted that from a system perspective, key date and time information is recorded or automatically captured in the source systems from which detail transactions are extracted and used to compute the various measures and prepare the 272 performance measure reports.

From the SQM, the following is a brief description of the methodology, represented by management, which BST follows to document time intervals for processing orders, provisioning of service, and performing repair and maintenance services:

Firm Order Confirmation (FOC) Timeliness
The reporting of the FOC Timeliness measure is derived from information contained in the underlying Operational Support Systems (OSS) and specific timestamps applied in those systems. The timestamps applied included the FOC date and the Access Service Request (ASR)/Local Service Request (LSR) received date. These timestamps are obtained from Exchange Access Control and Tracking (EXACT), Electronic Data Interchange (EDI) and CAFÉ systems.

Average Intervals-Requested/Offered/Installation

The reporting of the Average Intervals-Requested/Offered/Installation measure is derived from information contained in the underlying OSS and specific timestamps applied in those systems. The timestamps applied included the Application Date, Completion Date, ASR Received Date, Customer Desired Due Date, and FOC Due Date. These timestamps are obtained from EXACT, and Service Order Control System (SOCS).

Percent Installation Appointments Met

The Percent Installation Appointments Met measure is not an interval calculation but reports the percentage of installation commitments completed on or before the FOC Due Date. The reporting of this measure is derived using the Missed Appointment Code as obtained from SOCS.

Average Presubscribed Inter-exchange Carrier (PIC) Change Interval

The reporting of the Average PIC Change Interval measure is derived from information contained in the underlying OSS and specific timestamps applied in those systems. The timestamps applied included the Cycle Timestamp and Positive Acknowledgement Timestamp, the Request Receipt Date and Completion Date. These timestamps are obtained from Customer Account Record Exchange (CARE), SOCS, and MARCH, an operations system that processes switch-related service orders.

Trouble Report Rate and Average Repair Interval

The reporting of the Trouble Report Rate and Average Repair Interval measures are derived from information contained in the underlying OSS, line counts and specific timestamps applied in those systems. The time interval applied is the Responsible Duration, which is the difference between the Received Date/Time and Restored Date/Time minus any delayed maintenance, no access and/or referral durations. The time interval and line counts are obtained from the Work Force Administration (WFA) system.

4. Obtained the performance data and related volumes maintained by BST from June 1, 2005 to November 30, 2005, by month, by state, indicating time intervals for processing of orders (for initial installation requests, subsequent requests for improvement, upgrades, or modifications of service or repair and maintenance), provisioning of service, and performance of repair and maintenance services for the Section 272 Affiliate, BOC and other BOC affiliates and nonaffiliates for exchange access services and PIC change orders.

   Regarding telephone exchange access services and unbundled network elements (UNEs) performance measures, BST Management represented the following:

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- No BST affiliate, including BST itself, has purchased UNEs from BST during the Engagement Period.
- Only one affiliate, BellSouth Long Distance, Inc. (BSLD), purchased Telephone Exchange Services for resale purposes from BST during the Engagement Period. The total services purchased by BSLD during that period, which consisted primarily of frame relay and related services purchases from state tariffs, including the associated revenues, sum to $8.96 million
- BSLD did not purchase any intraLATA toll services for resale during the Engagement Period.

For each of the performance measures listed in Table 6 below, the results and data obtained is shown on Attachment A-1 along with linear graphs for each state, for each performance measure, for each service, for each month from June 1, 2005 to November 30, 2005. Attachment A-1 includes the calculated result, volumes and standard deviation (as applicable) for the 272 Affiliate, BOC & Other Affiliates and Nonaffiliates, and related parity score (as applicable, shown as Z-Score and Equity) for 272 Affiliate vs. Nonaffiliates and BOC & Other Affiliates vs. Nonaffiliates.

Table 6:
Section 272(e)(1) Performance Measures Reported
Initial Order Request
XX.W.1.5- Firm Order Confirmation (FOC) Timeliness
Order Processing
XX.W.2.6- PIC Change Timeliness
XX.W.2.7- Percent Installation Appointments Met
XX.W.2.8- Order Completion interval
XX.W.2.9- Average Intervals- Requested
XX.W.2.10- Average Intervals Offered
XX.W.2.11- Average Intervals- Installation
Repair & Maintenance
XX.W.3.9- Average Repair interval
XX.W.3.10- Trouble Report Rate

From documentation obtained from BST Management, noted that performance measure calculations were only considered appropriate for determining equity of performance as long as there are 30 or more observations each for BellSouth and the nonaffiliated carriers in the current time period, as when the number of observations is less than 30, the sample size is too small to make a reasonable estimation of the true performance of the process. Also noted that BST used a Z-Score value of 1.645 in the determination of equity for the performance measure results.

Obtained the explanations listed in Table 7 below from BST for performance measure results where fulfillment of requests from nonaffiliates took longer than for either the Section 272 Affiliate or the BOC and Other BOC Affiliates.

Table 7 BST Explanations of Performance Measure Results	
1	**Trouble Report Rate (All states, June 2005 through November 2005)**
	The performance measurement results indicated that the Section 272 Affiliate or other affiliates reported a lower trouble report rate than the nonaffiliates for all nine states and for the entire duration of the Audit Test Period for the DS1 product. BST Management represented that overall service levels were high for all customers during the period (around 98%) with over 15% of all trouble tickets received being either in the nature of No Trouble Found (NTF) or Tested OK (TOK).
2	**Average Repair Interval**
	The performance measurement results indicated that the Section 272 Affiliate or other affiliates reported a shorter repair interval than the nonaffiliates for the states and the products noted below. BST Management represented that in most of the cases, it appears that the cut cable/fiber for the nonaffiliates adversely affected average repair intervals, primarily due to the hurricane-impacts in different regions. The geographic location of customers and type of service provided were the major contributing factors to the difference between BOC/Other Affiliate and Nonaffiliates. The general response also referred to the fact that the BOC/Other Affiliate circuits were used primarily for Frame Relay services while Nonaffiliates had no circuits used for Frame Relay. Frame Relay services tend to have troubles that can be found and corrected within a shorter timeframe because no central office or field dispatch is necessary. Most frame relay troubles require only dispatch to a remote call center that has remote computer access to the switch facilitating faster maintenance and testing. Further, BST Management also explained that BOC/Other Affiliate customers are generally more metro, frame relay customers that experience less cut cable and/or fiber. The BOC/Other Affiliates also had comparatively lower NTF and TOK duration time as compared with unaffiliated entities. The dispatches resulting from NTF trouble reports affects utilization of the technicians when responding to actual

Table 7 **BST Explanations of Performance Measure Results**	
	troubles. Customer behavior influences the volume of NTF and TOK troubles received, which is an uncontrollable factor for BellSouth. The customer's preference or capabilities to test prior to reporting a trouble to BellSouth can influence significant distinction in the number of troubles closed to NTF and TOK. Special access customers are expected to perform adequate testing in their network prior to reporting a trouble to BellSouth.
	• **North Carolina- DS0 Product- October and November 2005**
	BST Management represented that for October 2005, the cut cable/fiber for the Nonaffiliates adversely affected average repair intervals, primarily due to the hurricane impact. The BOC/Other Affiliate circuits were used primarily for Frame Relay services (30%) while Nonaffiliates had no circuits used for Frame Relay. The BOC/Other Affiliates had a total of 48.84% NTF and TOK trouble reports compared to Nonaffiliates of 27.52%. The average duration for the BOC/Other Affiliates NTF and TOK reports was 2.06 hours compared to the Nonaffiliates of 3.51 hours. For November 2005, BST Management represented that the BOC/Other Affiliates had a total of 38.78% NTF and TOK trouble reports compared to Nonaffiliates of 28.57%. The average duration for BOC/Other Affiliates TOK troubles was 0.45 hours compared to the Nonaffiliates of 3.04 hours. BOC/Other Affiliate circuits were used primarily for Frame Relay services (35%). Nonaffiliates had no circuits used for Frame Relay.
	• **Mississippi- DS0 Product- September 2005**
	BST Management represented that cut cable/fiber for the BOC/Other and Nonaffiliates, due primarily to hurricane-impact, adversely affected average repair intervals in September. BOC/Other Affiliates had a total of 40% NTF and TOK trouble reports compared to Nonaffiliates of 38.93%. The average duration for BOC/Other Affiliates NTF and TOK trouble reports was 4.34 hours compared to the Nonaffiliates of 4.50 hours.
	• **Georgia- DS1 Product- July and August 2005, DS0 Product- November 2005**
	BST Management represented that the variation between repair intervals for the BOC/Other Affiliates and Nonaffiliates was due to the volume of tickets, the types of service provided, cut cable and/or fiber for nonaffiliates, and the percentage of TOK

Table 7 **BST Explanations of Performance Measure Results**	
	requests. BOC/Other Affiliate circuits were used primarily for Frame Relay services (44%) while Nonaffiliates had .004% circuits used for Frame Relay. For July, 2005, BST Management indicated that BOC/Other Affiliates had a total of 43.90% TOK trouble reports compared to Nonaffiliates of 38.99%. The average duration for BOC/Other Affiliates NTF and TOK troubles was 4.11 hours compared to the Nonaffiliates of 3.69 hours. For August 2005, BST Management indicated that BOC/Other Affiliates had a total of 42.86% NTF and TOK trouble reports compared to Non Affiliates of 39.12%. The average duration for BOC/Other Affiliate NTF and TOK troubles was 2.89 compared to the Nonaffiliates of 3.51 hours. BOC/Other Affiliate circuits were used primarily for Frame Relay services (30%). Nonaffiliates had 0.001% circuits used for Frame Relay. For November 2005, BST Management represented that the main contributors to the parity difference between BOC/Other Affiliates and Nonaffiliates relates to the types of troubles associated with the duration time and volume of troubles. The BOC/Other Affiliates had a total of 48.94% NTF and TOK trouble reports compared to Nonaffiliates of 37.10%. The average duration for BOC/Other Affiliates NTF and TOK troubles was 3.20 hours compared to the Nonaffiliates of 2.56 hours.
	• **Florida- DS1 Product- June and August 2005**
	BST Management represented that the main contributors to the parity difference between the BOC/Other Affiliates and Nonaffiliates relates to the types of troubles associated with the duration time, volume of troubles, and the number of cut, wet, damaged cable/fiber facilities. For June 2005, the BOC/Other Affiliates had a total of 18.75% TOK reports compared to Nonaffiliates of 30.11%. The average duration for BOC/Other Affiliate TOK troubles was 0.44 compared to the Nonaffiliates of 3.60 hours. For August 2005, BST Management indicated hurricane activity along with the volume of troubles, the types of services provided, cut cable and/or fiber for nonaffiliates, hurricane activity, and the percentage of TOK and NTF reports. The

Table 7 **BST Explanations of Performance Measure Results**	
	BOC/Other Affiliate circuits were used primarily for Frame Relay services (61%) while Nonaffiliates had .001% circuits used for Frame Relay. The BOC/Other Affiliates had a total of 62.71% NTFs and TOKs compared to Nonaffiliates of 38.89%. The average duration for BOC/Other Affiliate NTF and TOK troubles was 2.93 hours compared to the Nonaffiliates of 3.93 hours.
3	**Provisioning**
	BST Management represented that only the provisioning measure, P-2 (XX W2.7 Percent Installation Appointments Met) could be used to assess parity. The intervals used and measured in the other two provisioning measures, P-1 and P-1A, reflect the business decisions of BellSouth's customers and display only whether BellSouth is meeting the customer's expectation when customer-desired due date (CDDD) is offered. This is due primarily to the fact that BellSouth offers its customers the opportunity to "buy down or expedite" the CDDD as part of its access product offerings. Therefore, P-1 and P-1A intervals for any specific customer are a reflection of that customer's business plan and buying habits. P-2, however, is not impacted by the "buy down" practice and can be used to assess parity as the metric measures the percentage of installation commitments completed on the firm order completion (FOC) due date, as recorded from the FOC received in response to the last access service request received. Because this measure looks at the order to ensure that it was completed on or before the FOC Due Date, the "buy down" process does not influence the actual metric result. The Audit Test Period results for P-2 did not show any out of parity results.

5. Randomly selected the month of September 2005 from the Audit Test Period. Obtained the underlying data related to the reported results and data obtained in Procedure 4 above, for each performance measure, for each state, and for each underlying service category, applied the business rules, including definitions, exclusions, calculations and reporting structure, to the underlying data for the month of September 2005 (PM data). Also obtained BST's SQL code requirements used to calculate the results reported in Procedure 4 (Code Requirements) and compared these requirements to the SQM obtained in Procedure 3 above. Differences noted are included in Table 8 below. Using the PM data, prepared calculation models based on the SQM obtained in Procedure 3 above and recalculated the performance measure results for September 2005. Compared the recalculated results to the results obtained in Procedure 4 above and noted the differences described in Table 8 below.

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Table 8:	
Performance Measure Recalculation Differences Noted In September 2005 Results	
1	**O-1 Firm Order Confirmation Timeliness** - Discrepancies between BellSouth and E&Y results were identified in the DS3 Optical and Non-Optical product categories. This was due to two instances of misidentified records in the current process. First, based on substring characteristics of the field *exact_seg2.ecckt*, records should be given a circuit format code of M, 1, C, 4, S, 3, T, or 2. In the requirements documentation, any *ecckt* field that does not meet the substring requirements for M, 1, S, 3, T, or 2 should be labeled as C or 4. In the code, however, C and 4 is designated by specific substring characteristics and records that do not meet the substring requirements for the eight above-mentioned codes will be given a null circuit format code. In a later step in the code, these records will drop out due to a null circuit format code. Upon researching the null records, these should have been labeled as C and 4 and subsequently included in the calculations. The code was updated to include these records, and the greatest difference appeared in North Carolina and South Carolina nonaffiliate DS3 Optical intervals. E&Y results were 1.16 days and 4.00 days greater in each state, respectively.
2	**O-1 Firm Order Confirmation Timeliness** - A discrepancy was caused by the misidentification of records with M and 1 circuit format codes when they should not have been labeled as such. These records were identified because the field *reqtyp1* was E, S, or R and the circuit format code was M or 1. In the code, these records were subsequently excluded from the calculation data because the *Special_Service_Ckt_Lkp* table does not account for circuit formats of M or 1. E&Y updated the code to label records that had *reqtyp1* of "M" and the appropriate *ecckt* substring characteristics as "M" or "1" circuit format codes. Those that did not meet these criteria were subsequently labeled with C and 4 circuit format codes. This update slightly altered the final results, specifically in the DS3 Optical intervals for North Carolina by increasing the interval an additional 0.07 days.
3	**O-1 Firm Order Confirmation Timeliness** - An inconsistency was identified between the requirements documentation and the current SQL code. According to the requirements, the special service circuit code should be derived from various substrings of the field *exact_seg2.ecckt* based on the circuit format code. The SQL code did not include this. Instead, the special service circuit code was derived from a substring of the NC field in the table *exact_seg1*. A comparison of the two methods of deriving the special service circuit code

Table 8:	
Performance Measure Recalculation Differences Noted In September 2005 Results	
	indicated that records identified as M, 1, C and 4 did not produce the same special service circuit code. E&Y results were calculated using the original code (special service circuit code is derived from a substring of field *exact_seg1.ecckt*), and BST Management was notified of the inconsistency between the requirements and the code.
4	**P-2 Percent Installation Appointments Met –** Noted a discrepancy between the Code Requirements and the SQM definition for the external disaggregation of the Special Access DS0, DS1, DS3 (Non-Optical) and DS3 (Optical Ocn) products; however, the change in SQL code did not result in a difference between the recalculated and reported results.
5	**M&R-1&2 Trouble Report Rate and Average Repair Interval -** An inconsistency was identified between the SQM and the Code Requirements with regards to line count exclusions based on field substring requirements in the circuit history data. For example, when excluding reciprocal services, the requirement indicates that "All records where the circuit format code is 'C' or '4' and the *cktid*, 1, 5 contains a 'J'" should be removed from the data set. The code presents that the substring of the field *cktid* should include the second through the fifth characters instead of the first through fifth characters as outlined in the requirements. BST Management indicated that this is due to a difference in source data characteristics. The *cktid* field in the circuit history data has a different format than in the trouble ticket data (which the requirement was copying). If the results had been calculated strictly off of the SQM requirement, they would have been impacted due to a different set of records being included in the data. Another example of a substring inconsistency between the code and the SQM involves the substring of the *cktid* field in the circuit history data to create the *NC* field. According to the data definition in the SQM, the *NC* field is developed from the fourth and the fifth characters of the *cktid* field. In the code, the *NC* field is created from the fifth and the sixth characters of the *cktid* field. If the SQM requirements had been followed, the final results would have been impacted due to invalid records being included in the final data set.

6. Inquired and documented how and where BST made available to unaffiliated entities information regarding service intervals in providing any service to the

Section 272 Affiliate, themselves or their affiliates and to unaffiliated entities. BST Management represented the following:

- *Legacy BellSouth (AT&T Southeast) makes service interval information available to the Section 272 Affiliate, other affiliates and nonaffiliates in the same manner. The AT&T Southeast Account Team provides a web site that addresses complete interval guidelines for all legacy BST products and services for all of its customers (affiliates and nonaffiliates). The web site can be viewed at www.interconnection.bellsouth.com and provides detailed information based on the customers' desire for service type and the quantity needed to meet their application. This web site is available 24 hours a day to all potential and existing customers to review.*

  Any nonaffiliated entity may request to see aggregate information regarding service intervals AT&T Southeast sustains in fulfilling service requests to itself or its affiliates. This request should be made in writing to the nonaffiliated entity's account team manager, if the nonaffiliated has one, or to the AT&T Southeast – Sales AVP – Interconnection Services, 675 West Peachtree St., Atlanta, GA 30375. The review may take place during normal business hours, 8:30 a.m. to 5:00 p.m. Monday – Friday. Upon receipt of the written request from the nonaffiliated entity, AT&T Southeast personnel will contact the requesting entity to establish a date and time for the review. To allow AT&T Southeast to accommodate the request comfortably, the request should include the number of people who plan on participating in a review of the information. The requesting nonaffiliated entity may take notes while the service interval information is being made available; however, copies of the information will not be provided.

  If any information is publicly available on ATT Southeast's web site, management will direct the requesting nonaffiliated entity to the appropriate web link. The information provided will be substantially in the format of Appendix C of In the Matter of Implementation of the Non-Accounting safeguards of section 271 and 272 of the Communications Act of 1934, as amended, CC Docket No. 96-149, First Report and Order and Further Notice of Proposed Rulemaking, 11FCC Rcd 21905 (1997).

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> *During the Engagement Period, no entity has requested service interval information, or any of the other section 272 reports that BST produces, for service that BST provides to the Section 272 Affiliate, other affiliates, or nonaffiliates.*

On June 15, 2007, inspected the "BellSouth Guide to Interconnection: Interconnection Services" on the Company's interconnection web site at www.interconnection.bellsouth.com. Noted the guide contained documentation related to service intervals available for various products.

Objective IX: Determine whether or not the BOC and an affiliate subject to section 251(c) of the Act have made available facilities, services or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under section 272 that operates in the same market.

1. Obtained a list of exchange access services and facilities with their related rates offered to the Section 272 affiliate BST Management indicated that all such services were made available to affiliates and nonaffiliates alike in media such as tradeshow brochures, print media and the BellSouth Interconnection web site, www.interconnection.bellsouth.com (Interconnection web site).

   The primary media used to make exchange access services and facilities available is the Interconnection web site. Obtained excerpts from the exchange access tariffs for each BellSouth state at the BellSouth Tariffs and Price Lists site, http://cpr.bellsouth.com/index2.html, and noted that all exchange access services and facilities were offered at the same rates, terms and conditions to all carriers via the tariffs. Also noted that BellSouth notifies carriers through the use of notification letters that are electronically sent and posted on the Interconnection web site. Obtained the index to the Interconnection web site that listed 140 notification letters related to exchange access services and facilities. BST indicated that carriers may also obtain information from their account manager during the Engagement Period.

   Haphazardly selected 25 of the 140 notification letters to interexchange carriers during the Audit Test Period from the carrier notification page of the Interconnection web site and obtained copies of the letters. Noted that all 25 notification letters were addressed to all carriers (not specific individual carriers) and referred the carriers to their account representative for pricing information. Obtained copies of 10 brochures and one print media and noted that they also refer to the interconnection web site or the carrier Account Representative for additional information including pricing. From the observations of media described above, noted no difference in the media made available to the Section 272 Affiliate and unaffiliated carriers.

2. Obtained a listing of all exchange access services and facilities rendered to BSLD and other interexchange carriers (IXCs) during the Audit Test Period in any state.

   a. Determined the ten goods/services, listed in Table 9 below, with the largest dollar amounts billed to unaffiliated third parties, determined by accumulated billings to all unaffiliated carriers.

Table 9:	
Ten Largest Exchange Access Services Sold to BSLD and Unaffiliated IXCs	
1	HICAP DS1 (SPA)
2	LightGate Service (SPA)
3	SMARTRing Service (SPA)
4	SWA Local Switching
5	SWA Dedicated Transport
6	SWA Tandem Switching
7	Digital Data Access (SPA)
8	SWA Common Line
9	SWA SS7
10	HICAP DS1 IAS SPA

Obtained and reviewed the BST Revenue Narratives and noted the same billing system, Carrier Access Billing System (CABS), was used for all exchange access services provided to BSLD and/or unaffiliated carriers, including the ten services listed in Table 9 above.

b. The ten services listed in Table 9 above were billed from the same system, CABS, to both BSLD and unaffiliated carriers, therefore, performed the following:

1. For CABS, obtained and summarized in Table 10 below, the system or process descriptions of key controls, including controls over rate updates, bill verification and journalization during the Engagement Period:

Table 10:
Key Controls for CABS – Rate Updates, Bill Verification and Journalization
(1) Rate Updates - To help verify the accuracy of rate changes, all rates entered into rate interfaces require a peer review. This control is evidenced either by review or approval within the system.
(2) Bill Verification
a. During the rating and billing processes within CABS, system edits validate key fields. Mechanized errors and error reports are reviewed prior to the completion of the billing cycle.

Table 10:
Key Controls for CABS – Rate Updates, Bill Verification and Journalization
b. Automated bill verification is performed for CABS bills, and variances are investigated by BellSouth Billing Inc. staff.
(3) Journalization
a. To help verify that accounts receivable information balances, Financial Database (FDB) compares the previous day's ending accounts receivable, plus billing amount, less customer payments received, and plus/minus any adjustments to the subsidiary ledger's accounts receivable balance. If this amount does not balance, then FDB generates an error report that is reviewed and corrected by RAO clerks. This control is evidenced by the RAO clerks' accounts receivable reconciliations.
b. FDB reads the trailer of the daily data feeds and compares the total amount in the detail file, by Central Office, to the balance record, Central Office. If these amounts do not match, by Central Office, FDB creates a fictitious account code, places an amount equal to the difference in the account, and generates an error report that is reviewed and corrected by RAO clerks. This control is evidenced correcting manual entry documentation from the RAO clerks.
c. FDB compares the key data fields in the all data feeds received to the key data fields found in Revenue Directory to help verify the validity of the data and proper account coding. These errors are investigated and corrected by RAO clerks. This control is evidenced by the error report for any nonvalidated key data fields received from the billing systems.
d. Manual entries to FDB that require approval due to dollar amount are approved via e-mail or a signed written approval according to the manual entry threshold policy. The threshold for clerks is set at $100,000.

APPENDIX A

Results of Agreed-Upon Procedures

Table 10:
Key Controls for CABS – Rate Updates, Bill Verification and Journalization
e. Manual entries to the PeopleSoft G/L that require approval due to dollar amount are approved via e-mail or a signed written approval according to the manual entry threshold policy. The threshold for clerks is set at $100,000.
f. Each RAO clerk maintains a Teamwork spreadsheet, which lists recurring manual entries to FDB. When a clerk completes his or her Teamwork spreadsheet, he or she submits it to the RAO accounting manager for review.
g. The Senior Accountant maintains a checklist to track the receipt, submission, errors, acceptance, and resubmission of batches for all automated files. This control is evidenced by the completion of the Excel spreadsheet with the monthly checklist.

2. Randomly selected June 2005 from the Audit Test Period. Obtained a listing of June 2005 invoices to BSLD and unaffiliated IXCs. For each the ten services listed in Table 9 above, randomly selected one BSLD invoice and one unaffiliated third-party invoice and compared the rates charged to both parties during the month of June 2005. Noted that four of the ten services were for switched access services and six of the ten were for special access services. Noted the following:

   - For the four switched access service rates and one of the special access service rates, noted both BSLD and the unaffiliated IXCs were billed at the same rate.

   - For five of the special access service rates, noted differences between the amounts charged to BSLD and the unaffiliated IXC. Per inquiry of BST, noted that other factors that must be taken into consideration when comparing billing rates for these services. Identified the following four main factors that must be considered when comparing billing rates for BSLD and unaffiliated IXCs for these services:

     - **Transport Payment Plans –** Transport Payment Plans are term commitment plans for DS1 and higher services. Rates are based on one of three possible month/range periods selected by the customer.

- **Border Interconnection Percentage (BIU) –** Per tariff agreements, many USOCs are billed based on mileage bands. Generally there is a flat rate charged, as well as an additional fee per mile of service. In some instances, the mileage USOC's territory may extend into another company's territory, resulting in the amount billed to be in proportion to the billing company's territory's usage. Border Interconnection Percentage (BIP) indicates the percentage of the rate element that belongs to BellSouth.

- **Percent Interstate Usage (PIU) –** This rate element is provided by the customer and indicates the portion of access service projected for interstate use.

- **Ratchet Factor (RAF) –** The USOC is being billed in proportion to the amount of special access service use. Customers sometimes split the use of their lines between special access and switched access services. During these cases, they are billed in proportion to the service use.

For these five billing rate comparisons, with additional information provided for BSLD and the unaffiliated IXC related to the factors described above, recalculated the billing rates used to bill BSLD and the unaffiliated IXC and noted no differences.

c. As noted in Step b. above, BST bills the 10 goods/services listed in Table 9 above to both BSLD and unaffiliated third parties through the same system, therefore, this procedure is not applicable.

d. BSLD Management represented that its exchange access service accounts payable process and controls are the same as for all other services, as described in Objective VII, Procedure 4d.

APPENDIX A

Results of Agreed-Upon Procedures

Objective X: Determine whether or not the BOC and an affiliate subject to section 251(c) of the Act have charged its separate affiliate under section 272, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carrier for such service.

1. Obtained a list of eight interLATA services: Enhanced 911 (E911); National Directory Assistance (NDA); Reverse Search; Stand Alone Signaling (SS7); Louisiana Incidental Services; Enhanced Directory Assistance (EDA); Region-wide Messaging; and, Virtual Campus Solution, offered by BST during the Engagement Period and discussed the list with the appropriate BST representative, who indicated that the list was comprehensive. Compared the services appearing on the list with all the interLATA services disclosed in BST's Cost Allocation Manual (CAM) Section II, Nonregulated Activities. Noted no differences. Compared the nonregulated interLATA services listed in section II of BST's CAM with those defined as incidental in section 271(g) of the Act and those interLATA services allowed under FCC order and noted no differences.

2. From the list of the eight services from Procedure 1 above, determined by inquiry that BST was imputing to itself amounts for access, switching and transport for the following six services: Enhanced 911 (E911); National Directory Assistance (NDA); Reverse Search; Louisiana Incidental Services; Enhanced Directory Assistance (EDA); and, Virtual Campus Solution. BST Management represented that no imputation was performed for Region-wide Messaging and SS7 services, as follows:

   - *For Region-wide Messaging, the interLATA portion of this service is not provided over BST's own facilities. InterLATA facilities are purchased from an IXC. The charges from the IXC are coded directly to nonregulated operations. There is no use of BST facilities. Hence, there is no imputation.*

   - *SS7 does not have uniquely divisible regulated and nonregulated service portions. Hence, to satisfy the federal requirement, an allocation of the regulated tariff revenue must be made to nonregulated operations, and an allocation of the related tariff must be made to nonregulated operations. The basis for both allocations is identical. The net result of the allocation of revenue and the allocation of the tariff charge is zero. Zero entries are not made.*

   Randomly selected the month of June 2005 from the Audit Test Period and, for each six services listed above for which imputation was performed, obtained usage details and tariff rates for each for each of the access, switching, and transport elements. Matched rates used in imputation calculations with the tariff rates or the highest rates charged other interexchange carriers (IXCs). Traced imputed amounts to the journal entries and to the general ledger of BST. Noted that the journal entries were debits to nonregulated operating revenues (decrease) and credits to regulated revenues (increase). Noted the following difference:

- The NDA imputation calculation used a rate of $0.001177 compared to the Tandem Access Switching tariff rate of $0.001198. This resulted in a total understatement of the imputation of $75.51.

Noted that, during the Audit Test Period, BST followed the imputation process described above and imputed charges monthly for the services listed above, except for Louisiana Incidental Services which were imputed quarterly.

3. For exchange access services and local exchange services purchased by BSLD from BST, documented in Table 11 below the total amounts that BSLD recorded as expense during the Audit Test Period. Compared these amounts to the total amounts booked as revenues by BST during the Audit Test Period and identified differences as noted in Table 1 below. BSLD Management represented that BSLD did not purchase unbundled network elements from BST during the Engagement Period.

Table 11:
Exchange Access and Local Exchange Services –
BSLD Expense vs. BST Revenue
For the Audit Test Period, June 1, 2005 through November 30, 2005

Service	BST Revenue Recorded	BSLD Expense Recorded	Difference
Local Exchange Services	$ 9,236,939	$ 8,549,382	$ 687,557
Exchange Access Services	167,186,301	161,545,586	5,640,715
Total	**$176,423,240**	**$170,094,968**	**$ 6,328,272**

BSC Management represented differences to be due to timing between the receipt of invoices and the recording of the related expense. BSLD Management represented that:

- *BSLD records expenses related to services billed by BST after the invoice received has been reviewed and deemed reasonable for payment by Choice Point Solutions, the entity responsible for reviewing the invoices for reasonableness and accordance with related tariffs and contract agreements. Once approval has been received, the appropriate expense is recorded and subsequent payment will be made. The Company does* *perform an estimate to accrue for invoices received, but not processed; however, variances still exist due to differences between the estimate and actual.*

Also compared the amounts paid by BSLD to BST's revenue amounts and to the amounts expensed by BST for Audit Test Period as shown in Table 12 below.

Table 12:
Exchange Access and Local Exchange Services – BSLD Expense vs. BSLD Payments to BST For the Audit Test Period, June 1, 2005 through November 30, 2005

Service	BSLD Expense Recorded	BSLD Payments to BST	Difference
Local Exchange Services	$ 8,549,382	$ 8,847,903	$ (298,521)
Exchange Access Services	161,545,586	167,186,301	(5,640,715)
Total	**$ 170,094,968**	**$ 176,034,204**	**$ (5,939,236)**

BSLD Management represented that the differences noted above are due to timing between the recording of expense and the subsequent payment.

Objective XI: Determine whether or not the BOC and an affiliate subject to section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.

1. Obtained a list of interLATA network services and facilities and their related rates offered by BST to the Section 272 Affiliate during the Engagement Period. BST Management represented the following:

   - *Wholesale National Directory Assistance (WNDA) is the only interLATA service that BST offered for sale or sold to an affiliate or to a nonaffiliated third party during the Engagement Period.*

   Also obtained a listing of carriers purchasing WNDA service during the Engagement Period, and noted that BSLD and three unaffiliated carriers purchased comparable switch-based directory network services WDNA during the Engagement Period. Inquired of management the types of media used to inform carriers of the availability of WNDA service. BST Management responded with the following list of applicable media used to inform unaffiliated entities of the availability of WNDA:

   - BSLD contract posted to BellSouth's web site at *www.bellsouthcorp.com/policy/transactions*
   - BellSouth Interconnection Services brochures
   - Magazine advertisements
   - An ongoing newsletter is mailed to customers and posted on BellSouth's Interconnection web site at *www.interconnection.bellsouth.com*

   Obtained and inspected the informational media listed above and noted that WDNA service was made available at the same rates, terms and conditions to all carriers.

   Compared the list of one interLATA service, WNDA, obtained above to the list of interLATA services obtained in Objective V/VI, Procedure 4 and to the list of interLATA services obtained in Objective X, Procedure 1 (after comparison to the CAM). Noted no instances where services were found in either the list of services from Objective V/VI, Procedure 4, the list of services from Objective X, Procedure 1, or in advertising media listed above that were not reported by BST in response to this procedure.

   Inquired and noted BST Management's response that all interLATA services were offered to BSLD that were covered by a written agreement.

2. Using the listing of four information media types listed in Procedure 1, selected and obtained one, the interconnection services brochure, for testing. Compared the WNDA information in the brochure and noted no differences between services, rates, terms and conditions offered to BSLD compared to service, rates, terms and conditions offered to unaffiliated carriers. Also noted that the media referred the customer to an Account Team Representative for pricing information. BST Management represented that the Account Team Representative refers customers to a nondiscriminatory rate matrix at the time of inquiry by the customer. Obtained the nondiscriminatory rate matrix for the WNDA service that is offered to carriers. Agreed the rates included in the nondiscriminatory rate matrix to the rates included on the Provision of Bellsouth National Directory Assistance Services contract between BST and BSLD obtained in Objective V/VI, Procedure 4 and noted no differences. Also obtained copies of pricing schedules of the three nonaffiliated carriers that purchased switch-based directory network WNDA service and compared these to the nondiscriminatory rate matrix. Noted for one carrier, the rate per the contract was lower than nondiscriminatory matrix. BST Management represented the following in regard to this difference:

   - *WNDA service was BST's product offering in a very competitive marketplace. As these services are competitive the final prices are negotiated based on many market factors and may vary from those in the matrix.*

3. Requested a listing of all interLATA services and facilities that were purchased during the Audit Test Period from BST by both an unaffiliated entity and BSLD in any state. BST Management represented:

   - *WNDA was the only interLATA service that BST offered for sale or sold to an affiliate or to a nonaffiliated third party during the Engagement Period.*

   a. From information provided by BST Management, determined that BST used the CABS system to bill WNDA service to both BSLD and unaffiliated entities.

   b. Since WNDA is billed from the same system, CABS, to both BSLD and unaffiliated carriers, performed the following:

      Summarized the key controls over rate updates, bill verification and journalization relating to the CABS system in Objective IX, Procedure 2b, Table 10.

      Randomly selected one WNDA invoice for BSLD and one WNDA invoice for an unaffiliated third-party from the Engagement Period. Traced the BSLD and unaffiliated third party invoices selected to the CABS billing system to confirm that each transaction was billed using the same system. No exceptions were noted. Compared the WNDA rate charged on the BSLD invoice to the rate charged on the unaffiliated third-party invoice and noted no differences.

c. As noted in Step b. above, BST bills WNDA service to both BSLD and unaffiliated third parties through the same system, therefore, this procedure is not applicable.

d. BSLD Management represented the its WDNA service accounts payable process and controls are the same as for all other services, as described in Objective VII, Procedure 4d.

APPENDIX A

Results of Agreed-Upon Procedures

Follow-Up Procedures

Noted the following actions taken by Management to ensure nonrecurrence and improvement of prior reported items, and the effective dates of such actions when performing the procedures related to the findings noted in the prior engagement's BellSouth Telecommunications, Inc. Section 272 Biennial Agreed-Upon Procedures Report of the independent accounting firm, PricewaterhouseCoopers LLP (PwC), dated October 31, 2005:

a. PwC's analysis of fixed assets indicates two items from a sample of 80 were billed to BST or BCPS although the assets appear in BSLD's asset records. (Objective I, Procedure 6)

   No similar differences were noted in this report.

   Management Comments:
   PwC noted in its audit report dated October 31, 2005, that BSLD had 2 of 80 asset additions sampled supported by invoices that listed a bill to a company other than BSLD. One of the two companies listed on the invoices, BCPS, was merged into BSLD at the end of 2003. This entity no longer exists and any vendor confusion over the proper corporate name to include on all bills relating to this company has been resolved. The other company listed on the invoice, BST, was due to an error by the vendor. Due to the number of BellSouth entities, vendors are often confused about which entity they are billing. Although they may get the address correct, they will still sometimes use an incorrect legal name. Whenever that occurs, we contact the vendor and work with them to ensure that all future invoices for goods purchased by BSLD are billed in our name. As this is a third-party vendor mistake, once we tell them it is BSLD ordering the good or service, there is no additional control or action that can be taken by BSLD to prevent their mistake. Instead, we address any vendor bill naming errors on a case-by-case basis as they occur.

b. Selected performance measurement data reviewed in the course of the audit suggest that BellSouth completed requests from unaffiliated entities for telephone exchange service and exchange access within a period longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates. (Objective VIII, Procedure 4)

   Performance measure result differences are also noted in this report.

   Management Comments:
   BST created the following teams to directly address the issue of completing requests from unaffiliated entities within a period longer than for itself or its

affiliates. These teams were charged with specific process improvements and implementations aimed at improving service levels to unaffiliated entities. These teams met monthly during the Engagement Period.

- *ACAC Maintenance Process Improvement Team*
- *ACAC Provisioning Process Improvement Team*
- *Ordering Process Improvement Team*
- *Failure Frequency and Repeats Steering Team*
- *4 Area Improvement Team*
- *New Circuit Failure Team (met weekly during Engagement Period)*

c. For the randomly selected months of November 2003, November 2004 and April 2005, PwC was unable to replicate numerous performance measurements. (Objective VIII, Procedure 5)

Replication differences are also noted in this report.

<u>Management Comments:</u>
BST has corrected the coding used to calculate the performance measures for 9 of the 10 replication differences noted by PwC, as listed in Table 13 below. For one issue noted by PwC related to average intervals requested/offered/installed, BST agrees with PwC's conclusion, but has not changed its process because the issue noted was the result of manual errors by the service order representatives, not an error in the calculation process.

Table 13:		
Performance Measure Recalculation Differences Noted by PwC and Corrected by BST		
	Issue Noted by PwC	***Code Change Correction Date***
1	*Codes to capture dry fiber*	*September 2006 release.*
2	*Zero day intervals*	*September 2006 release*
3	*Orders showing a miss code of "E" are not excluded*	*March 2006 release*
4	*Exclusion of "SL" missed appointment code*	*Added to SQM, Version 1.07 dated November 1, 2005*
5	*Only order with the Application_Date and Completion_Date in the report month are reported*	*July 2006 release*
7	*Duplication of records*	*April 2005 release*
8	*Nonworking circuits in the measure results*	*June 2005 release*
9	*Improper affiliate grouping*	*May 2005 release*

APPENDIX A

Results of Agreed-Upon Procedures

Procedures for Subsequent Events

1. Management represented that BST's and BSLD's processes and procedures have not changed since the time of execution of these procedures and the end of the Engagement Period.

2. Obtained written representation from BSC Management that they were not aware of any events subsequent to the Engagement Period, but prior to the issuance of this report, that may affect compliance with any of the objectives described in this document.

Appendix B

JOINT FEDERAL/STATE OVERSIGHT TEAM
FOR
BELLSOUTH TELECOMMUNICATIONS, INC.

GENERAL STANDARD PROCEDURES
FOR
BIENNIAL AUDITS
REQUIRED UNDER SECTION 272
OF THE
COMMUNICATIONS ACT OF 1934, AS AMENDED

FOR THE PERIOD MAY 24, 2005 THROUGH DECEMBER 19, 2005

FINAL PROCEDURES

October 15, 2007

JOINT FEDERAL/STATE OVERSIGHT TEAM
FOR
BELLSOUTH TELECOMMUNICATIONS, INC.

GENERAL STANDARD PROCEDURES
FOR
BIENNIAL AUDITS
REQUIRED UNDER SECTION 272
OF THE
COMMUNICATIONS ACT OF 1934, AS AMENDED

FOR THE PERIOD MAY 24, 2005 THROUGH DECEMBER 19, 2005

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BELLSOUTH TELECOMMUNICATIONS, INC.
BIENNIAL ENGAGEMENT PROCESS

INTRODUCTION

Background

1. Section 272(a) of the Communications Act of 1934, as amended (the Act), requires that a Bell Operating Company (BOC) set up one or more separate affiliates before engaging in manufacturing activities, in-region interLATA services, and interLATA information services. For interLATA information services, this requirement expired on February 8, 2000 in accordance with the Act. Before engaging in the provision of in-region interLATA services, a BOC or an affiliate of the BOC must meet the requirements of section 271 of the Act and must receive approval by the Federal Communications Commission (FCC). A BOC that is required to operate a separate affiliate under section 272 must obtain and pay for a joint Federal/State audit every two years.[1]

2. The Commission adopted rules to implement the section 272(d) biennial audit requirement. *See Accounting Safeguards Order* at paras. 197-205; *see also* 47 C.F.R. § 53.209-.213. The Commission's Part 53 rules and accompanying orders govern the conduct of the section 272(d) biennial audit. As stated in the Commission's Part 53 rules, the purpose of the section 272(d) biennial audit is to determine whether the BOC and its section 272 affiliates have operated in accordance with the accounting and non-accounting safeguards required by section 272 of the Act and the Commission's rules. 47 C.F.R. § 53.209 (b) lists the specified compliance requirements of the section 272(d) biennial audit. In addition to specifying the audit requirements, the Commission's rules at 47 C.F.R. § 53.209(d) provide for the establishment of a Federal/State joint audit team that is authorized to oversee the conduct of the audit from planning stage through completion and to "direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements in 47 C.F.R. § 53.209(b)". Although the section 272(d) biennial audit is to be conducted by an independent auditor, the Federal/State joint audit team is also responsible for ensuring that the audit meets the objectives stated in the Commission's rules and orders. 47 C.F.R. §§ 53.209(d) states that the Federal/State joint audit team is responsible for "overseeing the planning of the audit"; 47 C.F.R. §§ 53.211(b) requires the Federal/State joint audit team to review the audit requirements and authorizes the Federal/State joint audit team to modify the audit program; 47 C.F.R. §§ 53.211(c) (authorizes the Federal/State joint audit team to approve the audit requirements and program; and 47 C.F.R. §§ 53.211(d) gives the Federal/State joint audit team the right to determine any modifications to the audit program and to be kept apprised of any revisions to the audit program or to the scope of the audit. In accordance with *Statements on Standards For Attestation Engagements* 10, Paragraph 1.03: "When a practitioner undertakes an attest engagement for the benefit of a

[1] 47 U.S.C. § 272(d).

government body or agency and agrees to follow specified government standards, guides, procedures, statutes, rules and regulations, the practitioner is obliged to follow those governmental requirements as well as applicable attestation standards."

3. Working pursuant to delegated authority, the Federal/State joint audit team elected to use the Agreed-Upon Procedures (AUP) form of attestation engagement to meet the objectives specified in the Commission's rules, *i.e.*, to determine whether the BOC and its section 272 affiliates complied with the relevant accounting and non-accounting safeguards. The American Institute of Certified Public Accountants (AICPA) defines an AUP engagement as "one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on subject matter."[2] For the purposes of planning this AUP engagement and developing the appropriate audit procedures, the "specified parties" consist of the Federal/State joint audit team ("Oversight Team" or "Joint Oversight Team") and the company responsible for obtaining and paying for the section 272(d) biennial audits (*i.e.*, BellSouth Telecommunications, Inc. ("BST")). The Oversight Team will be comprised of members from the FCC and members from the state commissions who have jurisdiction over BST in their respective states[3] and who have chosen to participate in the Biennial Audit and have either a signed Protective Agreement or a Protective Order promulgated by the State Commission.

The Oversight Team is responsible for reviewing the conduct of the engagement and, after consultation with BST, for directing the practitioner to take such action as the team finds necessary to achieve each audit objective. Consistent with section 53.209(d) of the Commission's rules, the Oversight Team may direct the independent auditor to take any actions necessary to ensure compliance with the audit requirements of section 53.209(b) as reflected in letters or orders issued by the Bureau staff and served on BST. If BST disagrees with the Oversight Team's directions, the Oversight Team will issue a written decision describing the specific directions to which BST objects. BST may file a petition for reconsideration (PFR) of that decision with the Enforcement Bureau pursuant to section 1.106 of the Commission's rules. The specified parties agree that the independent auditor shall implement the directions of the Oversight Team ten business days after such decision is issued if BST has not filed a PFR. The specified parties further agree that if the Enforcement Bureau denies any part of BST's PFR , the independent auditor shall immediately implement the directions of the Enforcement Bureau's decision.

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[2] Statement on Standards for Attestation Engagements (SSAE) 10, paragraph 2.03, published by the American Institute of Certified Public Accountants.

[3] Alabama Public Service Commission; Florida Public Service Commission; Georgia Public Service Commission; Kentucky Public Service Commission; Louisiana Public Service Commission; Mississippi Public Service Commission; North Carolina Utilities Commission; South Carolina Office of Regulatory Staff; and Tennessee Regulatory Authority.

BST may also file an application for review (AFR) of the Enforcement Bureau's decision pursuant to section 1.115 of the Commission's rules. The independent auditor shall nonetheless implement the Enforcement Bureau's decision even if BST files an AFR of that decision. Should the Commission grant any part of BST's AFR, the independent auditor shall modify its procedures accordingly. In the event that BST's AFR has not been acted on by the date of the filing of the final biennial audit report, the results of any such affected procedures shall be omitted from the final biennial audit report until such time as the Commission issues a final decision; however, the issues under review shall be disclosed in the final biennial audit report as matters subject to an application for review with the Commission that have not yet been acted upon.

The text below provides the requirements for the engagement as listed in section 53.209(b) of the FCC rules and indicates the nature, timing, and extent of the AUP for each requirement. It should be noted that AUP engagements are not based on the concept of materiality, therefore, the practitioner must report all results in the form of findings from application of the agreed upon procedures.

COMPLIANCE REQUIREMENTS

4. The requirements that will be covered in the Biennial Audit are contained in 47 U.S.C. section 272(b), (c), and (e) of the Communications Act of 1934, as amended, and in 47 C.F.R. section 53.209(b) of the FCC rules and regulations. Below is a listing of those requirements:

Structural Requirements

The separate affiliate required under section 272 of the Act:

I. Shall operate independently from the Bell operating company;

II. Shall maintain books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company;

III. Shall have officers, directors, and employees that are separate from those of the Bell operating company;

IV. May not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company;

Accounting Requirements

The separate affiliate required under section 272 of the Act:

V. Shall conduct all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

The Bell operating company:

VI. Shall account for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

Nondiscrimination Requirements

The Bell operating company:

VII. May not discriminate between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards;

VIII. Shall fulfill any requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates;

IX. Shall not provide any facilities, services, or information concerning its provision of exchange access to the section 272 affiliate unless such facilities, services, or information are made available to other providers of interLATA services in that market on the same terms and conditions;

X. Shall charge its separate affiliate under section 272, or impute to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service;

XI. May provide any interLATA or intraLATA facilities or services to its interLATA affiliate if such services or facilities are made available to all carriers at the same rates and on the same terms and conditions, and so long as the costs are appropriately allocated.

Related FCC Dockets

5. These requirements have been clarified and expanded upon in several FCC proceedings. These proceedings are subject to further modification in subsequent FCC orders, or in orders on reconsideration. Below is a list of FCC orders related to the above requirements:

CC Docket No. 96-149, In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; *First Report and Order and Further Notice of Proposed Rulemaking*; Released December 24, 1996. Other releases under this docket were issued on February 19, 1997; June 24, 1997; June 10, 1998; September 3, 1999; April 27, 2001.

CC Docket No. 96-150, In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996; *Report and Order*; Released December 24, 1996. Another release under this docket was issued on June 30, 1999.

CC Docket No. 96-98, In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; *First Report and Order*; Released August 8, 1996 (First Interconnection Order); *Second Report and Order and Memorandum Opinion and Order*; Released August 8, 1996 (Second Interconnection Order).

CC Docket No. 96-115, In the Matter of Implementation of the Telecommunications Act of 1996: Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information; *Second Report and Order and Further Notice of Proposed Rulemaking*; Released February 26, 1998.

CC Docket No. 98-121, In the Matter of Application of BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana; *Memorandum Opinion and Order*; Released October 13, 1998.CC Docket No. 00-199, In the Matter of 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; *Report and Order and Further Notice of Proposed Rulemaking*; Released November 5, 2001.

WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002.

WC Docket No. 03-228, In the Matter of Section 272(b)(1)'s "Operate Independently" Requirement for Section 272 Affiliates; *Report and Order*; Released March 17, 2004.

6. In addition, the following pending FCC dockets may, if applicable to the activities of the BOC, result in additional regulations surrounding the Nondiscrimination Requirements:

Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321, Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended; RM 10329, AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services.

Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318, Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56, Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance.

The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

ENGAGEMENT PLAN

Engagement Period

7. The AUP engagement shall cover the six months and twenty five days of operations beginning May 24, 2005 and ending December 19, 2005 (the Engagement Period) for all nine BST states since all have obtained authority to provide in-region interLATA services prior to May 24, 2005. The engagement will also cover all assets of the 272 affiliate added during the Engagement Period. . The biennial audit will cover all services for which a separate affiliate is required under section 272(a)(2) and includes all BOCs within the Region and ILECs providing or receiving services to or from the section 272 affiliate. The Audit Test Period will be from June 1, 2005 through November 30, 2005 except where noted.

Sunset Provisions

8. Section 272(f)(1) of the Communications Act provides that section 272 (other than subsection (e)) shall cease to apply to the interLATA telecommunications services of a BOC three years after the date the BOC receives authorization to provide interLATA telecommunications services under section 271(d), unless the Commission extends such three-year period by rule or order. Thus, section 272(d), which concerns the biennial audit sunsets three years after section 271 authorization. The Commission has determined that such "sunset" shall apply on a state-by-state basis according to the date that each state receives section 271 authorization.[4]Therefore, as each state within the BST region sunsets, that state may be excluded from further section 272 audits as of the date of sunset as recognized by the FCC. However, if a BOC in a given state has affiliate transactions with any section 272 affiliate, those transactions will continue to be part of the audit because of the continuation of the Commission's rules governing affiliate transactions in Part 32.

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[4] WC Docket No. 02-112, In the Matter of Section 272(f)(1) Sunset of the BOC Separate Affiliate and Related Requirements; *Memorandum Opinion and Order*; Released December 23, 2002.

Following the above process, Georgia and Louisiana sunset on May 15, 2005; Alabama, Kentucky, Mississippi, North Carolina, and South Carolina sunset on September 18, 2005; and Florida and Tennessee sunset on December 19, 2005. The engagement period for the current biennial audit ends on December 19, 2005 and the audit test period ends on November 30, 2005. Pursuant to a consent decree entered into between BST and the Commission in July 2003, all of the nine states in the BellSouth service area will sunset at the same time on December 19, 2005.[5]

Sampling

9. Certain audit procedures may require testing on a sample basis. The sample sizes and sampling methodologies to be used in performing such audit procedures shall be determined during the performance of the audit of BST. The practitioner and the specified parties shall make such determinations jointly. During this process, the practitioner shall obtain detailed listings or lists (representing the population of potential items to be tested) for each procedure. For those procedures requiring statistical sampling, the practitioner shall develop detailed statistical parameters that include the total number of items in the universe, the number of items sampled, and the method of selection. Where the specified parties and practitioner indicate, and when appropriate, the practitioner shall select a statistically valid sample using random and stratified sampling techniques with the following parameters: a desired confidence level equal to 95%; a desired upper precision limit equal to 5%; and an expected error rate of 0%. Taking under consideration cost versus benefit to be derived, the Oversight Team shall approve the sampling plan, after consulting with BST, when reviewing the detailed procedures written by the practitioner and/or during the execution of the procedures.

10. Generally, the practitioner should consider all data and information falling within the engagement period; however, unless otherwise stated in this document or accepted by the Oversight Team, the practitioner should obtain data and information as of the latest period available during the engagement period. For procedures requiring sampling sizes to be based on information available as of the end of the Audit Test Period, the practitioner will utilize November 30, 2005 as the relevant date, unless otherwise noted. In addition, to the extent that the companies' processes and procedures change between the time of execution of these procedures and the end of the engagement period, the practitioner has an obligation to obtain management's representation that these changes ensured continued compliance with the section 272 requirements.

Definitions

11. <u>*BOC*</u> If the BOC transfers or assigns to an affiliated entity ownership of any network elements that must be provided on an unbundled basis pursuant to section 251(c)(3), such entity shall be subject to all of the requirements of the BOC. For purposes of this engagement, in the event that the BOC provides exchange and/or exchange access services on a

[5] In the Matter of BellSouth Corporation; *Order*; FCC 03-174, ¶ 11(a)(i); Released July 17, 2003.

retail or wholesale basis exclusively through one or more of its subsidiaries or affiliates, or through one or more other subsidiaries, divisions, etc., of the parent Regional Holding Company, and the same services cannot be purchased directly from the BOC, then these entities shall also be subject to all of the relevant nondiscriminatory requirements of Objectives VII through XI of this document. Affiliates that merely resell the BOC's exchange services and/or exchange access services or lease unbundled elements from the BOC, or engage in permissible joint marketing activities (see section 272(g)(1) of the Act), shall be excluded from these requirements.

12. *BellSouth Telecommunications, Inc. or BST* For the purposes of this engagement, BellSouth Telecommunications, Inc. is the only "Bell Operating Company" serving the nine-state territory and subject to this Biennial Audit and includes any successor or assign of such company as described in ¶11. The term "ILEC" (Incumbent Local Exchange Carrier) includes BST and any successor or assign of such company as described in ¶11.

13. *Affiliate* The term "affiliate" shall refer to a person that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with, another person. For this purpose, the term "own" means to own an equity interest (or the equivalent thereof) of more than 10 percent. (*See* Section 3 of the Communications Act of 1934, as amended.)

14. *BellSouth Telecommunications, Inc. or BST's Section 272 Affiliate(s)* The audit procedures are required to be performed, unless otherwise specified, for all section 272 affiliates as defined by the Act. For the purposes of this engagement, the term "separate affiliate" or "section 272 affiliate" refers to BellSouth Long Distance, Inc., and any other affiliate that originates InterLATA telecommunications services in the BellSouth region that is subject to section 272 separation requirements, and any affiliate that engages in manufacturing activities as defined in section 273(h).

15. *Official Services* Official Services mean those services permitted by the United States District Court for the District of Columbia in United States v. Western Electric Co. Inc. See 569 F. Supp. 1057, 1098, n.179 (1983) (defined as "communications between personnel or equipment of an Operating Company located in various areas and communications between Operating Companies and their customers"), and its progeny.

16. *Obtain* For purposes of this engagement, the term "obtain" as referred to in the procedures contained herein, shall mean that the practitioner will physically acquire, and generally retain in the working papers, all documents supporting the work effort performed to adequately satisfy the requirements of a procedure. The practitioner, in their professional judgment, shall decide which items are too voluminous to include in the working papers. The practitioner shall include a narrative description of the size of such items as well as any other reasons for their decision not to include them in the working papers.

Conditions of Engagement

17. The practitioner leading this engagement shall be a licensed CPA. The practitioner's team performing the engagement shall be familiar with the standards established for an agreed-upon procedures engagement, the requirements for the Biennial Audit, and its objectives. The team performing the engagement shall also be independent as defined in the Statements on Standards for Attestation Engagements (SSAE 10, paragraphs 1.35-1.38) and in compliance with the independence requirements of the Sarbanes-Oxley Act of 2002. The practitioner shall disclose in its engagement letter to BST how the team shall comply with the independence requirements of the Sarbanes-Oxley Act of 2002. All members of the team performing the engagement shall have a sufficient general understanding of the relevant information contained in the following documents:

- Sections 271 and 272 of the Communications Act of 1934, as Amended;

- Section 32.27, Transactions with Affiliates, of the FCC's Uniform System of Accounts for Telecommunications Companies (USOA);

- The relevant orders and rules from the following FCC Dockets:

    a. CC Docket No. 86-111, dealing with the allocation of joint costs between the regulated and nonregulated activities of the telephone company;

    b. CC Docket No. 96-149, dealing with the implementation of the non-accounting safeguards of sections 271 and 272 of the Act;

    c. CC Docket No. 96-150, dealing with the implementation of the accounting safeguards of sections 271 and 272 of the Act;

    d. CC Docket No. 96-98, dealing with the implementation of the local competition provisions of the Act (the interconnection orders);

    e. CC Docket No. 96-115, dealing with the use of customer proprietary network information;

    f. Notice of Proposed Rulemaking, FCC 01-339, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-321, Performance Measurements and Standards for Interstate Special Access Services; CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended; RM 10329, AT&T Corp. Petition to Establish Performance Standards, Reporting Requirements, and Self-Executing Remedies Need to Ensure Compliance by ILECs with Their Statutory Obligations Regarding Special Access Services. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period;

g. Notice of Proposed Rulemaking, FCC 01-331, released on November 19, 2001, dealing with several dockets, among which, CC Docket No. 01-318, Performance Measurements and Standards for Unbundled Network Elements and Interconnection; CC Docket No. 98-56, Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance. The proposed regulations are to be considered by the practitioner only if adopted by the FCC, applicable to section 272 relationships and to the extent in effect during the engagement period.

- BellSouth Telecommunications, Inc.'s section 271 application(s) and related FCC approval(s);

- Orders issued by state commissions approving interconnection agreements that are covered in the scope of the engagement;

- Petitions for arbitration with the BOC for those agreements tested within the engagement.

18. In addition, to the extent the practitioner determines procedures included in this plan cannot be performed, the practitioner will propose alternate procedures to the Oversight Team, as appropriate. The practitioner will inform the Oversight Team if the practitioner determines it is necessary to modify the agreed upon procedures or the scope of the engagement, in order to provide the specified parties with all of the information needed to determine compliance with the various requirements. The practitioner shall include any additional hours and fees that would result from revisions of the procedures or of the scope of the engagement. After the practitioner informs the Oversight Team of any revisions to the final audit program or to the scope of the audit, the Oversight Team shall inform BST about these revisions. These revisions will be subject to the procedures described in paragraph 3 above.

19. The practitioner may use the services of a specialist for assistance in highly technical areas. The practitioner and the specified parties shall explicitly agree to the involvement of any specialist to assist in the performance of the engagement. The specialist shall not be affiliated in any form with BellSouth Telecommunications, Inc.

20. The practitioner's use of internal auditors shall be limited to the provision of general assistance and the preparation of schedules and gathering of data for use in the engagement. Under no circumstances shall the internal auditors perform any of the procedures contained in this document. All the procedures in this document shall be performed by the

practitioner.

21. The practitioner shall not use or rely on any of the procedures performed during any of the BST Cost Allocation Manual (CAM) audits to satisfy any of the requirements in Objectives V/VI.

Representation Letters

22. The practitioner shall obtain three types of representation (assertion) letters. The first type of representation letter shall address all items of an operational nature (see para.23). The second type of representation letter shall address all items of a financial nature (see para.24). The third type of representation letter shall state that all section 272 affiliates have been disclosed (see para.25). The following paragraphs detail the contents of each type of representation letter.

23. The representation letters related to operations issues shall be signed by the Chief Operating Officer or the equivalent of BST and each section 272 affiliate. The letters shall include the following:

a. acknowledgement of management responsibility for complying with specified requirements;

b. acknowledgement of management responsibility for establishing and maintaining an effective internal control structure over compliance;

c. statement that BST has performed an internal evaluation of its compliance with the specified requirements;

d. statement that management has disclosed or will disclose to the practitioner all known noncompliance occurring up to the date of the report;

e. statement that management has made available all documentation related to compliance with the specified requirements;

f. statement that management has disclosed all written communications from regulatory agencies, internal auditors, external auditors, and other practitioners, and any written formal or informal complaints to regulatory agencies from competitors, concerning possible noncompliance with the specified requirements, including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report;

g. statements that any section 272 affiliate operates independently from BellSouth Telecommunications, Inc.; BST does not own any facilities jointly with any section 272 affiliate; and BST is not providing and did not provide any research and development that is a part of manufacturing on behalf of any section 272 affiliate pursuant to section 272(a);

h. statement that any section 272 affiliate has separate officers, directors, and employees from those of BellSouth Telecommunications, Inc.;

i. statement that BST did not discriminate between itself or any section 272 affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards (on the BST representation letter only);

j. statement that BST has fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates (on the BST representation letter only);

k. statement that BST has made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has made available to any section 272 affiliate that operates in the same market (on the BST representation letter only).

24. The representation letters related to financial issues shall be signed by the Chief Financial Officer or the equivalent of BST and each section 272 affiliate. The letters shall include the following:

a. statement that any section 272 affiliate maintains separate books, records, and accounts from those of BST and that such separate books, records, and accounts are maintained in accordance with GAAP;

b. statement that no section 272 affiliate has obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BellSouth Telecommunications, Inc.;

c. statement that management has identified to the practitioner all assets transferred or sold since the last audit, and services rendered: (i) by BST to any section 272 affiliate; and (ii) by any section 272 affiliate to BST; and that these transactions have been accounted for in the required manner;

d. statement that BST has charged any section 272 affiliate, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service (on the BST representation letter only);

e. statement that, if BST and an affiliate subject to section 251(c) of the Act make available and/or have provided any interLATA facilities or services to its interLATA affiliate, such facilities or services are made available to all carriers at the same rates and on the same terms and conditions, and the associated costs are appropriately allocated (on the BST representation letter only);

f. statement that management has not changed any of the BST processes or procedures (as they relate to transactions of any kind with any section 272 affiliate) and that these processes and procedures have continued to be implemented on a consistent basis, since the execution of these agreed-upon procedures without apprising the practitioner, before the date of the draft report (on the BST representation letter only).

25. The representation letter related to the disclosure of all section 272 affiliates shall be signed by the Chief Financial Officer of BellSouth Corporation and shall state that each section 272 affiliate has been identified, accounted for in the required manner, and disclosed in the required manner. This letter shall also state that BellSouth: a) agrees that it will voluntarily comply with the separate affiliate requirements set forth in 47 U.S.C. 272, including section 272(d), until such time as each of the nine states in BellSouth's region is relieved from the requirements; and b) agrees that it will be subject to enforcement proceedings for noncompliance with section 272 that occurs after July 17, 2003, in any of the nine states in BellSouth's region until such time as each of the nine states in BellSouth's region is relieved from the requirements.

Engagement Process

26. The General Standard Procedures, which were drafted through the cooperative efforts of Federal and State regulators and various industry groups, are intended to provide general areas of audit work coverage and uniformity of audit work among all regions, to the extent possible, considering state regulatory and corporate differences. The standards identified throughout this document are not legal interpretations of any rules or regulations. To the extent that these standards conflict with any FCC rules and regulations, the FCC rules and regulations govern. Accordingly, by agreeing to these procedures, neither the FCC nor BellSouth Corporation, or any of its affiliates, concede any legal issue or waive any right to raise any legal issue concerning the matters addressed in these procedures.

27. The General Standard Procedures shall be used by BST as a guide for drafting the preliminary audit requirements, including the proposed scope of the audit, as prescribed in section 53.211(a) and (b) of the Commission's rules. Under these rules, BST shall submit the preliminary audit requirements, including the proposed scope and extent of testing, to the Oversight Team before engaging an independent accounting firm to conduct the Biennial Audit. The Oversight Team shall then have 30 days to review the preliminary audit requirements to determine whether they are adequate to meet the audit requirements in section 53.209 of the Commission's rules and "determine any modifications that shall be incorporated into the final

audit requirements" (section 53.211(b)). The preliminary audit requirements and scope of the audit shall be similar to the General Standard Procedures and shall cover all the areas described in that model. BST shall not engage any practitioner who has been instrumental during the past two years in designing any of the systems under review in the Biennial Audit. After BST has engaged a practitioner to perform the Biennial Audit, the process for drafting detailed procedures shall proceed as follows:

- The practitioner shall develop a detailed audit program based on the final audit requirements and submit it for review to the Oversight Team (section 53.211(d)).

- The Oversight Team shall have 30 days to review the detailed procedures for consistency and adequacy of audit coverage and shall provide to the practitioner any modifications that shall be incorporated into the final audit program (section 53.211(d)). These modifications will be subject to the procedures described in paragraph 3 above.

28. Access to all information during the section 272(d) biennial audit shall be restricted to: (a) FCC staff members; (b) state commission staff members where the state commission by statute protects company proprietary data; (c) state commission staff members who have signed a protective agreement with BST; (d) state commission staff members of any participating state that has confidentiality procedures in effect covering all staff and that requires the Chairman or designee to sign the protective agreement on behalf of the entire commission including commission staff; and (e) state commission staff members who have not signed the protective agreement, but to whom BST does not object providing oral or written information, provided that they do not take possession of such information.

29. The detailed examination of transactions shall begin at such time as the practitioner deems appropriate to complete the engagement in accordance with the time schedule set forth in section 53.211 and section 53.213 of the Commission's rules.

30. During the conduct of this engagement, and until issuance of the final report to the Commissions, the practitioner shall schedule monthly meetings with the Oversight Team and, at the discretion of the practitioner and the Oversight Team, with BST, to discuss the progress of the engagement. The practitioner shall inform the Oversight Team well in advance, but in not less than 10 days, of plans to meet with representatives of BST for the following reasons: to discuss plans and procedures for the engagement; to review BST procedures for maintaining books, records, and accounts; and to discuss problems encountered during the engagement. It shall not be necessary for the practitioner to inform the Oversight Team of meetings with the client to ask for clarification or explanation of certain items, explore what other records exist, or request data. The practitioner shall immediately inform in writing the Oversight Team of any deviation from, or revisions to, the final detailed audit procedures and provide explanations for such actions. The practitioner shall submit to the Chief, Enforcement Bureau, and shall copy the Oversight Team and, at the practitioner's discretion, BellSouth Telecommunications, Inc., any rule interpretation necessary to complete the engagement. The

practitioner shall advise the Oversight Team of the need for additional time to complete the engagement in the event that the Oversight Team requests additional procedures (see 31c. below). Finally, the practitioner shall immediately inform the Oversight Team, in writing, of any failure by BST or BellSouth Long Distance, Inc., to respond to requests for information during the engagement.

Timetables

31. In order to complete the engagement in a timely manner, the following time schedule for completion of certain tasks is provided:

a. No later than July 23, 2007, but prior to discussing the findings with BST, the practitioner shall submit a draft of the report to the Oversight Team for all procedures.

b. The Oversight Team shall have 45 days to review the findings and working papers and offer its recommendations, comments, and exceptions concerning the conduct of the engagement to the practitioner. The exceptions of the Oversight Team to the findings of the practitioner that remain unresolved shall be included in the final report.

c. If the Oversight Team requests additional procedures, the practitioner shall advise the Oversight Team and BST of any need for additional time to perform such procedures. Otherwise, within 15 days after receiving the Oversight Team's recommendations and making the appropriate revisions, the practitioner shall submit the report to BST for its comments on the findings, and to the Oversight Team. At the time the report is provided to BST, the practitioner may provide BST with an itemized list of all data and information identified as proprietary or confidential that the practitioner included in the report.

d. Within 30 days after receiving the report, BST will comment on the findings and send a copy of its comments to both the practitioner and the Oversight Team. BST will also provide the practitioner and the Oversight Team notification of all items contained in the draft report which BST contends to be confidential. BST’s response shall be included as part of the final report.

e. Within 10 days after receiving BST comments, the practitioner may respond to BST’s comments and shall make available for public inspection the final report by filing it with the regulatory agencies having jurisdiction over BST. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, BST’s comments, the practitioner's reply comments, and a copy of these procedures as executed.

f. Interested parties shall have 60 days from the date the report is made available for public inspection to file comments with the Commission and/or any state regulatory agency.

Report Structure

32. Consistent with the AICPA standards for AUP engagements, the practitioner must present the results of performing the audit procedures in the form of findings, including dollar amounts, resulting from application of the audit procedures. The presentation of findings related to each of the specified procedures shall include sufficient detail and specificity that a reader may draw a reasonable conclusion as to whether the respective Objective has or has not been met. The detail and specificity of the findings related to each of the specific procedures shall be consistent with BST's prior biennial audit report. The practitioner shall include in the report all the information required to be included in the report by the procedures and any further information required by the Oversight Team subject to the provisions of paragraph 3. The practitioner must avoid vague or ambiguous language in reporting the findings, and shall describe in the final report all instances of noncompliance with section 272 or its related implementing rules that were noted by the practitioner in the course of the engagement, or were disclosed by BST during the engagement and not covered by the performance of these procedures. Where samples are used to test data, the report shall identify the size of the universe from which the samples were drawn, the size of the sample, the sampling methodology used and, where appropriate, the standard deviation and mean. The final report shall contain the procedures employed with the related findings, the Oversight Team's comments, BST's comments, the practitioner's reply comments, and a copy of these procedures as executed. The practitioner's report must also contain the following elements:

a. A title that includes the word independent.

b. Identification of the specified parties.

c. Identification of the subject matter (or the written assertion related thereto) and the character of the engagement.

d. Identification of BST as the responsible party.

e. A statement that the subject matter is the responsibility of the responsible party.

f. A statement that the procedures performed were those agreed to by the specified parties identified in the report or were directed by the Bureau or the Commission, as specified in paragraph 3.

g. A statement that the agreed-upon procedures engagement was conducted in accordance with attestation standards established by the AICPA.

h. A statement that the sufficiency of the procedures is solely the responsibility of the specified parties and a disclaimer of responsibility for the sufficiency of those procedures.

i. A list of the procedures performed (or reference thereto) and related findings.

j. A statement that the practitioner was not engaged to and did not conduct an examination of the subject matter, the objective of which would be the expression of an opinion, a disclaimer of opinion on the subject matter, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported.

k. This report becomes a matter of public record via the practitioner's filing the final report with the FCC and the state regulatory agencies having jurisdiction over BST.

l. A description of any limitations imposed on the practitioner by BST or any other affiliate, or other circumstances that might affect the practitioner's findings.

m. A description of the nature of the assistance provided by specialists and internal auditors.

BELLSOUTH TELECOMMUNICATIONS, INC.
BIENNIAL ENGAGEMENT PROCEDURES

Follow-up Procedures on the Prior Engagement

1. The following matters were noted in the prior engagement's BellSouth Telecommunications, Inc. Section 272 Biennial Agreed Upon Procedures Report of the independent accounting firm, PricewaterhouseCoopers LLP (PwC), dated October 31, 2005:

   a. PwC's analysis of fixed assets indicates two items from a sample of 80 were billed to BST or BCPS although the assets appear in BSLD's asset records. (Objective I, Procedure 6)

   b. Selected performance measurement data reviewed in the course of the audit suggest that BellSouth completed requests from unaffiliated entities for telephone exchange service and exchange access within a period longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates. (Objective VIII, Procedure 4)

   c. For the randomly selected months of November 2003, November 2004, and April 2005, PwC was unable to replicate numerous performance measurements. (Objective VIII, Procedure 5)

2. When performing the procedures related to the above matters, the practitioner will note in the report whether these matters continued to exist beyond the previous engagement period, what action management took to ensure their non-recurrence or improvement, and the effective date of such action.

Procedures for Structural Requirements

<u>OBJECTIVE I.</u> Determine whether the separate affiliate required under section 272 of the Act has operated independently of the Bell Operating Company (BOC).

<u>STANDARDS</u>

The FCC has issued rules and regulations in CC No. Docket 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. Some of those rules require that,

- A BOC and its section 272 affiliate cannot jointly own transmission and switching facilities, broadly defined as local exchange and exchange access facilities, or the land and buildings where those facilities are located. (See 47 C.F.R. Section 53.203(a)(1) and First Report and Order, paras. 15, 158, 160)

- To the extent that research and development is a part of manufacturing, it must be conducted through a section 272 affiliate. If a BOC seeks to develop services for or with its section 272 affiliate, the BOC must develop services on a nondiscriminatory basis for or with other entities pursuant to section 272(c)(1). (See First Report and Order, para. 169)

<u>PROCEDURES</u>

1. Inquire of management whether there have been any changes in the certificate of incorporation, bylaws, and articles of incorporation of the section 272 affiliates covered in this biennial audit, and whether there have been any legal and/or “doing business as” (DBA) name changes during the engagement period. For each such change reported by management, and for any section 272 affiliate established or formed during the engagement period, inspect the certificate of incorporation, bylaws, and articles of incorporation to determine whether these affiliates were established as corporations separate from BST. Note in the report the results of this procedure.

2. Obtain and inspect corporate entities' organizational chart(s) as of the end of the Audit Test Period and confirm the legal, reporting, and operational corporate structure of the section 272 affiliate with legal representatives of BST, the section 272 affiliate, and BellSouth Corporation, as appropriate, as of December 19, 2005. Disclose these facts in the report. Document and disclose in the report who owned the section 272 affiliate during the Engagement Period.

3. Through inquiry of management, determine whether BST performed any R&D (Research and Development) activities on behalf of the section 272 affiliate during the Engagement Period. If yes, obtain descriptions of R&D activities performed by BST for the period

from June 1, 2005 through November 30, 2005 and note any R&D related to the activities of the section 272 affiliate. For R&D related to the activities of the section 272 affiliate, request from BST personnel more details, such as the extent of R&D provided, progress reports, cost, and whether the section 272 affiliate has been billed and has paid for this service. Disclose in the report all information obtained. Inquire and disclose in the report whether or not R&D service is offered and/or has been performed when requested by unaffiliated entities.

4. Obtain as of November 30 2005 the balance sheet of the section 272 affiliate and a detailed listing of all its fixed assets, including capitalized software. The total amount for fixed assets on the balance sheet should agree with the total amount on the fixed assets list. If the list does not agree with the balance sheet, inquire and document why. Disclose in the report by what amount the assets in the balance sheet are more than, or less than, as appropriate, the total amount of the assets on the detailed listing. Identify in the report the types of assets involved in these differences and provide explanations. Verify that all assets on the detailed listing that were added during the Audit Test include a description and location of each item, date of purchase, price paid, price recorded, and from whom purchased or transferred (if purchased from a nonaffiliate, then indicate "Nonaffiliate"). Disclose in the report any item, including dollar amounts, where any of this information is missing. Inspect title and/or other documents, which reveal ownership, of a statistically valid sample of transmission and switching facilities, including capitalized software, and the land and buildings where those facilities are located, added during the Audit Test Period . If any of these documents are not made available, disclose in the report. Look for and make a note of any facilities that are owned jointly with BST and disclose in the report. The balance sheet information obtained in this procedure should also be used to perform Procedure 8 under Objectives V and VI.

<u>OBJECTIVE II</u>. Determine whether the separate affiliate required under section 272 of the Act has maintained books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell Operating Company (BOC).

<u>STANDARDS</u>

In CC Docket No. 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, the FCC requires that each section 272 affiliate maintain books, records, and accounts, in accordance with generally accepted accounting principles (GAAP), and separate from those of the BOC. (See Report and Order, para. 170)

<u>PROCEDURES</u>

1. Obtain the general ledger (G/L) for the section 272 affiliate as of the end of the Audit Test Period and match the title on the G/L with the name of the affiliate on the certificate of incorporation (or other name which uniquely identifies the section 272 affiliate such as the DBA) to determine that a separate G/L is maintained. Look for special codes, if any, which may link this G/L to the G/L of BST and provide documentation (unless such codes are merely common accounting system codes or the like that are used in the general ledgers of all companies produced by such accounting system). State in the report whether or not a separate G/L is maintained, and if not, explain why. Note: Linkage at corporate headquarters for consolidations is an accepted practice.

2. Obtain the section 272 affiliate's financial statements (i.e., Income Statement and Balance Sheet) as of end of the Audit Test Period.

3. Obtain a list of lease agreements for each section 272 affiliate as of the end of the Audit Test Period. Identify leases for which the annual obligation listed in the lease agreement is $500,000 or more. Test those leases for which the section 272 affiliate is the lessor as well as those leases for which the section 272 affiliate is the lessee. For a statistically valid sample of leases $500,000 or more, obtain a copy of the lease agreement, and make a note of the terms and conditions to determine whether these leases have been accounted for in accordance with GAAP. Determine whether client lease accounting policies are in accordance with GAAP. Disclose in the report any instance where these leases were not accounted for in accordance with GAAP.

<u>OBJECTIVE III</u>. Determine whether the separate affiliate required under section 272 of the Act has officers, directors, and employees that are separate from those of the Bell Operating Company (BOC).

STANDARDS

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, interprets the above requirement further by stating the following:

Separate officers, directors, and employees simply dictates that the same person may not simultaneously serve as an officer, director, or employee of both a BOC and its section 272 affiliate. (See First Report and Order, para. 178)

PROCEDURES

1. Inquire, document and disclose in the report whether each section 272 affiliate maintains a separate board of directors, separate officers, and separate employees from BST during the Engagement Period. For BST and the section 272 affiliate, obtain a list of the names of directors and officers, including the dates of service for each Board member and officer for the Engagement Period. Confirm this list by comparing it to historical records of consents, minutes of Board of Directors' meetings, etc. Compare the list showing names of directors and officers for BST with a list showing names of directors and officers for the section 272 affiliate. For those names appearing on both lists, obtain explanations from management and request social security numbers and addresses to ensure that they are not the same individuals. Disclose in the report the number of directors and officers who, having the same social security number and address, served simultaneously as a director/officer of BST and as director/officer of the section 272 affiliate.

2. Obtain from the respective Human Resource Departments of the section 272 affiliate and BST a list of names and social security numbers of all employees for the Engagement Period. Design and execute a program that compares the names and social security numbers of employees at both entities, and document in the workpapers the names appearing on both lists. For any employee appearing on both lists simultaneously, inquire and document the reason in the report (for privacy reasons, do not include the names or SSNs of any BellSouth employees in the report).

<u>OBJECTIVE IV</u>. Determine that the separate affiliate required under section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell Operating Company (BOC).

<u>STANDARDS</u>

The FCC in 47 C.F.R. Section 53.203(d) indicates that a section 272 affiliate shall not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOC of which it is an affiliate.

The FCC also expands on this premise in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended. In this docket the Commission states that,

- A BOC cannot co-sign a contract or any other instrument with a section 272 affiliate that would allow such section 272 affiliate to obtain credit granting recourse to the BOC's assets. (See First Report and Order, para. 189)

- The BOC parent, or any other non-section 272 affiliate, cannot sign or co-sign a contract or enter into any arrangement with a section 272 affiliate that would allow the creditor to have recourse to the BOC assets. (See First Report and Order, para. 189)

- A section 272 affiliate cannot enter into any arrangement with any party that would permit the lender to have recourse to the BOC in the event of a default. (See First Report and Order, para. 189)

<u>PROCEDURES</u>

1. Obtain from management and document in the workpapers the section 272 affiliate’s debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services entered into or modified during the Audit Test Period. Look for guarantees of recourse to BST’s assets either directly or indirectly through another affiliate. Document any instances and disclose them in the report. Major suppliers are those having $500,000 or more in annual sales to the section 272 affiliate as stated in the agreement.

2. Using the lease agreements obtained in Objective II, Procedure 3, that were entered into or modified during the Audit Test Period, document any instances in which the section 272 affiliate’s lease agreements (where the annual obligation is $500,000 or more as stated in the agreement) have recourse to the assets of BST, either directly or indirectly through another affiliate. Disclose any instances in the report.

3. For all debt instruments, leases, and credit arrangements maintained by the section 272 affiliate in excess of $500,000 of annual obligations that were entered into or modified during the Audit Test Period, and for a judgmental sample of 10 debt instruments, leases and credit arrangements that are less than $500,000 in annual obligations that were entered into or modified during the Audit Test Period, obtain (positive) confirmations from loan institutions, major suppliers, and lessors to attest to the lack of recourse to BST assets. Disclose in the report any recourse noted.

Procedures for Accounting Requirements

<u>OBJECTIVE V</u>. Determine whether the separate affiliate required under section 272 of the Act has conducted all transactions with the Bell Operating Company (BOC) on an arm's length basis with the transactions reduced to writing and available for public inspection.

<u>OBJECTIVE VI</u>. Determine whether or not the Bell Operating Company (BOC) has accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

<u>STANDARDS</u>

The FCC in CC Docket No. 96-150, In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996, noted that the separate affiliates required under section 272(a) were required to meet the requirements of section 272(b) governing maintenance of books, records, and accounts, and, pursuant to section 272(c)(2), BOCs were required to account for all transactions with such affiliates "in accordance with accounting principles designated or approved by the Commission." (See para. 110)

The FCC in CC Docket 96-149, In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, interprets the above requirements further by stating:

- A section 272 affiliate shall conduct all transactions with the BOC of which it is an affiliate on an arm's length basis, pursuant to the accounting rules described in 47 C.F.R. Section 32.27, Transactions with Affiliates, of the FCC Rules and Regulations, with any such transactions reduced to writing and available for public inspection. (See Appendix B, Final Rules, 47 C.F.R. Section 53.203(e))
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Section 32.27 requires the following:

For transactions involving the sale or transfer of assets or products between the carrier and affiliates, or chained transactions:

a. assets sold or transferred between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariff rate;

b. nontariffed assets sold or transferred between a carrier and its affiliate that qualify for prevailing price must be recorded at prevailing price. In order to qualify for prevailing price valuation, sales of a particular asset to third parties must encompass greater than 25% of the total quantity of such product sold by an entity. Carriers shall apply this 25% threshold on an asset-by-asset basis rather than on a product line basis. See "Exceptions" below;

c all other assets sold by or transferred from a carrier to its affiliates, the asset shall be recorded at no less than the higher of fair market value or net book cost. See "Exceptions" below;

d. for all other assets sold by or transferred to a carrier from its affiliates, the assets shall be recorded at no more than the lower of fair market value or net book cost. See "Exceptions" below.

Exceptions:

Floor. When assets are sold by or transferred from a carrier to an affiliate, the higher of fair market value and net book cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Ceiling. When assets are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and net book cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Threshold. Carriers are required to make a good faith determination of fair market value for an asset when the total aggregate annual value of the asset(s) reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular asset for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the total aggregate annual value of the asset(s) does not reach or exceed $500,000, the asset(s) shall be recorded at net book cost.

For transactions involving the provision of services between the carrier and affiliates, or chained transactions:

a. services provided between a carrier and its affiliate pursuant to a tariff, including a tariff filed with a state commission, shall be recorded in the appropriate revenue accounts at the tariffed rate;

b. nontariffed services provided between a carrier and its affiliate pursuant to publicly filed agreements submitted to a state commission pursuant to section 252(e) of the Communications Act of 1934 or statements of generally available terms pursuant to section 252(f) shall be recorded using the charges appearing in such publicly- filed agreements or statements;

c. nontariffed services provided between a carrier and its affiliate that qualify for prevailing price valuation shall be recorded at the prevailing price. In order to qualify for prevailing price valuation, sales of a particular service to third parties must encompass greater than 25% of the total quantity of such service sold by an entity. Carriers shall apply this 25% threshold on a service-by-service basis rather than on a service line basis. See "Exceptions" below;

d. all other services sold by or transferred to a carrier from its affiliate shall be recorded at no more than the lower of fair market value and fully distributed cost. See "Exceptions" below;

e. all other services sold by or transferred from a carrier to its affiliate shall be recorded at no less than the higher of fair market value and fully distributed cost. See "Exceptions" below.

Exceptions:

Floor. When services are sold by or transferred from a carrier to an affiliate, the higher of fair market value and fully distributed cost establishes a floor, below which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or greater than the floor, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Ceiling. When services are purchased from or transferred from an affiliate to a carrier, the lower of fair market value and fully distributed cost establishes a ceiling, above which the transaction cannot be recorded. Carriers may record the transaction at an amount equal to or less than the ceiling, so long as that action complies with the Communications Act of 1934, as amended, Commission rules and orders, and is not otherwise anti-competitive.

Threshold. Carriers are required to make a good faith determination of fair market value for a service when the total aggregate annual value of that service reaches or exceeds $500,000, per affiliate. When a carrier reaches or exceeds the $500,000 threshold for a particular service for the first time, the carrier must perform the market valuation and value the transaction on a going-forward basis in accordance with the affiliate transactions rules. When the total aggregate *annual value of the service does not reach or exceed $500,000, the service shall be recorded at fully distributed cost.*

- Fully distributed cost is determined by following the standards contained in 47 C.F.R. Section 64.901, Allocation of Costs, of the FCC Rules and Regulations. These rules emphasize direct assignment and cost causation. First, costs are to be directly assigned either to regulated or nonregulated activities to the maximum extent possible. Then, costs, which cannot be directly assigned, are to be grouped into homogeneous cost pools and allocated in accordance with direct or indirect measures of cost causation. Residual costs, which cannot be apportioned on any cost-causative basis, will be apportioned using the general allocator. The general allocator is the ratio of all expenses directly assigned or attributed to nonregulated activities, to the total of all (regulated and nonregulated) directly assigned or attributed expenses.

- A BOC and a section 272 affiliate may provide in-house services to one another, except for operating, installation, or maintenance services prior to March 30, 2004. These in-house services, however, must be provided on an arm's length basis, and must be in writing. (See CC Docket No. 96-149, First Report and Order, para 180; see also WC Docket No. 03-228, Report and Order, para. 8, 12, 16, 24, 31)

- Provision of exchange and exchange access services and unbundled network elements constitute transactions requiring disclosure. (See CC Docket No. 96-150, Report and Order, para. 124) These transactions include the provision of transmission and switching facilities by the BOC and its affiliate to one another. (See CC Docket No. 96-149, First Report and Order, para. 193)

- The separate affiliate must provide a detailed written description of the asset or service transferred and the terms and conditions of the transaction on the Internet within ten days of the transaction through the company's home page. (Note: a transaction is deemed to have occurred once the BOC and its affiliate have agreed upon the terms and conditions of the transaction, not when the service is actually performed or the asset actually sold (See CC Docket No. 96-150, Report and Order, para. 124)). The description of the asset or service and the terms and conditions of the transaction should be sufficiently detailed to allow evaluation of compliance with accounting rules. This information must also be made available for public inspection at the principal place of business of the BOC. The information made available at the principal place of business of the BOC must include a certification statement identical to the certification statement currently required to be included with all Automated Reporting and Management Information System ("ARMIS") reports. Such certification statement declares that an officer of the BOC has examined the submission and that to the best of the officer's knowledge all statements of fact contained in the submission are true and the submission is an accurate statement of the affairs of the BOC for the relevant period. (See CC Docket No. 96-150, Report and Order, para. 122)

- Section 272(b)(3) does not preclude an affiliate of the BOC, such as a service affiliate, or the parent company of both the BOC and its section 272 affiliates from performing functions for both the BOC and its section 272 affiliate. The affiliate transaction rules apply to transactions between the BOC and a nonregulated affiliate of the BOC, such as a service affiliate, and to transactions between the BOC and its parent company. Under the principle of "chain transactions," the affiliate transaction rules also apply to any transactions between the section 272 affiliate and a nonregulated affiliate of the BOC, such as a service affiliate, that ultimately result in an asset or service being provided to the BOC. (See CC Docket No. 96-150, Report and Order, para. 183)

- In the case of transactions for assets and services subject to section 272, a BOC may record such transactions at prevailing price regardless of whether the 25% threshold has been satisfied. (See CC Docket No. 96-150, Report and Order, para. 137; CC Docket No. 00-199, Report and Order, Appendix F Section 32.27)

- Nondiscrimination requirements extend to any good, service, facility, or information that a BOC provides to its section 272 affiliate(s) with the exception of joint marketing, which is covered in section 272(g) of the Act. Unaffiliated entities must have equal opportunity to acquire any such goods, service, facility, or information. In particular, if a BOC were to decide to transfer ownership of a unique facility, such as its Official Services network, to a section 272 affiliate, it must ensure that the section 272 affiliate and unaffiliated entities have an equal opportunity to obtain ownership of this facility. (See CC Docket No 96-149, First Report and Order, para. 218)

- Interstate rate base, revenue requirements, and price cap indices of the BOC must be reduced by the costs related to any regulated facilities transferred to each section 272 affiliate. (See CC Docket No. 96-150, Report and Order, para. 265; see also C.F.R. 61.45(d)(1)(v))

PROCEDURES

1. Describe in the report and document in the working papers the procedures used by BST to identify, track, respond, and take corrective action on competitors' complaints with respect to alleged violations of the section 272 requirements. Obtain from BST a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716; and any written complaints made to a state regulatory commission from competitors involving alleged noncompliance with section 272 for the

provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the Engagement Period. The list should also include outstanding complaints from the prior engagement period, which had not been resolved as of the prior report date. The list should group the complaints in the following categories:

- allegations of cross-subsidies (for Objectives V and VI);

- allegations of discriminatory provision or procurement of goods, services, facilities, and customer network services information (excludes customer proprietary network information (CPNI)); or the establishment of standards (for Objective VII);

- allegations of discriminatory processing of orders for, and provisioning of, exchange access, exchange services, and unbundled network elements; and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);

- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group, determine by inquiry and review of documentation how many of the complaints were under investigation, how many complaints had been resolved, and in what time frame they had been resolved, if feasible. Disclose this information in the report. For those complaints that had been resolved, document and disclose in the report how those allegations were concluded. If the complaint was upheld, inquire, document and disclose in the report what steps the company has taken to prevent those practices from recurring. For all complaints that were filed in the previous engagement period, but were still open as of the prior report date, determine by inquiry and review of documentation how many of these complaints were under investigation as of the end of the current engagement period, how many complaints have been resolved as of the end of the current engagement period (and in what time frame they had been resolved), and disclose results in the audit report. For those complaints that have been resolved, document and disclose in the report how those allegations were concluded, and if the complaint was upheld inquire and document and disclose in the report what steps the company has taken to prevent those practices from recurring.

Note: Although applicable to complaints pertaining to Objective V/VI, VII, VIII, IX and XI, this procedure appears only once and will be performed only once for Objectives V/VI, VII, VIII, IX and XI. Reporting of the results of this procedure in the final report should be found here under Objective V/VI, Procedure 1, and should include the results for each respective objective.

2. Obtain from BST and the section 272 affiliate, written procedures for transactions with affiliates as of the end of the Engagement Period. Compare these procedures with the FCC rules and regulations indicated as "standards" above. Note and describe any differences and disclose them in the report.

3. Inquire and describe how BST and the section 272 affiliate disseminated the FCC rules and regulations and raise awareness among employees for compliance with the affiliate transactions rules during the Engagement Period. For this purpose, describe in the report the type and frequency of any training, any literature distributed, and any company policies. Document in the report any supervision received by employees responsible for affiliate transactions. Interview employees responsible for the development and recording of affiliate transactions costs in the books of record of the carrier to determine awareness of these rules. If there are more than 12 such employees, judgmentally select 12 employees for interview. If there are 12 or fewer such employees, select all for interviews. Disclose in the report whether these employees demonstrated knowledge of these rules.

4. a. Obtain a listing of all written agreements for services and for interLATA and exchange access facilities between BST and each section 272 affiliate which were in effect during the Audit Test Period. For those agreements that were terminated during the Audit Test Period, indicate the termination date; identify agreements terminated prematurely and document why and disclose in the report. Inquire and document and disclose in the report the provisioning of any non-tariffed service provided during the Audit Test Period without a written agreement.

   b. Obtain a listing of all written agreements, amendments and addenda that became effective during the Audit Test Period. For a statistically valid sample of such agreements, amendments and addenda, obtain (include in the practitioner work papers) copies of written agreements, amendments and addenda.

5. Using the sample of the agreements, amendments and addenda obtained in procedure 4b, view the BellSouth corporate web site on the Internet and compare the prices, terms and conditions of services and assets shown on this site to the agreements provided in Procedure 4b above. Disclose in the report any instance where any item in the agreement does not agree with the corresponding item on the Internet. Using the same sample as above, obtain a list of the principal places of business (BOC headquarters) where these agreements are made available for public inspection. Using a judgmental sample of locations agreed to by the Joint Oversight Team, by physical inspection, determine whether the same information is made available for public inspection at the principal place of business (BOC headquarters) of BST. Describe any differences and inquire why

such differences exist and disclose in the report. If the company makes any claim of confidentiality for nondisclosure, obtain details. It should be noted that these transactions should be posted for public inspection within ten days of their occurrence. Document in the workpapers the dates when the sampled agreements, amendments and addenda were signed, and/or the dates when the services were first rendered (whichever took place first), and the dates of posting on the Internet. Inquire and note in the report late postings occurring during the Audit Test period and reasons when posting took place after ten days of signing of agreement or provision of service (whichever took place first). Document in the working papers the procedures the company has in place for posting these transactions on a timely basis. The information provided on the Internet should be in sufficient detail to allow evaluation for compliance with accounting rules (see CC Docket No. 96-150, Report and Order, para. 122). Such disclosures should include a description of the rates, terms, and conditions of all transactions, as well as the frequency of recurring transactions and the approximate date of completed transactions. For asset transfers, the disclosure should include the appropriate quantity and, if relevant, the quality of the transferred assets. For affiliate transactions involving services priced at fully distributed costs or estimated fair market value, the disclosure should include the number and type of personnel assigned to the project and the level of expertise of such personnel (including the associated rate per service unit (e.g. contacts, hours, days, etc)). Service transactions should also disclose any special equipment used to provide the service, and the length of time required to complete the transaction. Additionally, the disclosure should state whether the hourly rate is a fully-loaded rate, and whether or not that rate includes the cost of materials and all direct and indirect miscellaneous and overhead costs for goods and services provided at fully distributed cost. If the information disclosed on the Internet is not sufficiently detailed as described above, document and describe in the report the total number of agreements that were observed with insufficient detail, and the particular item(s) not sufficiently detailed. Inquire of management and document in the report why such differences exist. (See CC Docket No. 98-121, In the Matter of Application of BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana; Memorandum Opinion and Order; Released October 13, 1998, para. 337.) Obtain copies of these public postings and include in the working papers.

6. Obtain a listing of all nontariffed services rendered by the BOC/ILEC(s) to each section 272 affiliate, by month, during the Audit Test Period. Determine which of these services are made available to both section 272 affiliates and to third parties.

   a. From the services not made available to third parties:

      1. Determine the 10 services with the highest billing volume in dollars over the Audit Test Period (including all BOC/ILECs and all states) that were billed to the section 272 affiliates (including all section 272 affiliates). Randomly select

one month during the Audit Test Period. For the month selected, obtain the billing records for all states, all BOC/ILECs, for the 10 "highest billing volume" services previously identified. Billing records should reflect the billing to all section 272 affiliates. For each "highest billing volume" service, randomly select 6 billing transactions from the billing records. (If there are fewer than 10 services not made available by BOC/ILECs to third parties, continue selecting billing transactions until 60 transactions are selected from the billing records.) For each transaction, determine compliance with section 32.27 of the Commission's Rules. Compare unit charges to Fully Distributed Cost (FDC) or Fair Market Value (FMV) as appropriate. When differences exist between the amount recorded as revenue by the BOC/ILEC, the amount billed by the BOC/ILEC, and the amount to be charged in accordance with the affiliate transaction rules, note in the report the number of instances and related amounts, and, after inquiry, document in the report the reasons for these occurrences.

2. For the sample of billing transactions selected in step 1, test each transaction for the proper application of billing rates, including all applicable discounts, surcharges, late fees, etc. Also test that the transaction was properly recorded as revenue by the BOC/ILEC, that the billed amount was paid by the section 272 affiliate, and that the payment was recorded by the BOC/ILEC. For this purpose, inspect the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of all relevant screens/summaries for the work papers. When any differences exist, note in the report the number of instances and the amount by which each item is different than the amount required by the rules and, after inquiry, the reasons for these occurrences. Also test that the transaction (and the same amount) was properly recorded as expense by the section 272 affiliate, and that the same amount was paid by the section 272 affiliate. Document in the audit report each instance where the payment by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded vs. paid amounts. Inquire of management and document in the report the reasons for any differences.

b. From the services made available to both section 272 affiliates and to third parties:

1. Determine the 10 services with the highest billing volume in dollars over the Audit Test Period (including all BOC/ILECs and all states) that were billed to the section 272 affiliates (including all section 272 affiliates).

2. Randomly select one month during the Audit Test Period. For the month selected, obtain the billing records for the 10 "highest billing volume" services

identified in step 1. Billing records should be for all BOC/ILECs, all states, and reflect billing to all section 272 affiliates. For each "highest billing volume" service, randomly select 6 billing transactions from the billing records. For each billing transaction selected, test each transaction for the proper application of billing rates, including all applicable discounts, surcharges, late fees, etc. Also test that the transaction was properly recorded as revenue by the BOC/ILEC, that the billed amount was paid by the section 272 affiliate, and that the payment was recorded by the BOC/ILEC. For this purpose, inspect the Accounts Receivable record of the BOC/ILEC (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of all relevant screens/summaries for the work papers. Determine if the transaction billed to the section 272 affiliate complies with section 32.27 of the Commission's Rules. When differences exist, note in the report the number of instances and the amount by which each item is less than the amount required by the rules and, after inquiry, the reasons for these occurrences. Also test that the transaction (and the same amount) was properly recorded as expense by the section 272 affiliate, and that the same amount was paid by the section 272 affiliate. Document in the audit report each instance where the payment of the bill by the section 272 affiliate was not properly recorded, and where any differences were found in the recorded vs. paid amounts. Inquire of management and document in the report the reasons for any differences.

7. Obtain a listing of all services rendered by month by each section 272 affiliate to each BOC/ILEC during the Audit Test Period.

a. Determine the 10 services with the highest billing volume in dollars over the Audit Test Period (including all BOC/ILECs and all states) that were billed by the section 272 affiliates (include all section 272 affiliates) to the BOC/ILECs. Randomly select one month during the Audit Test Period. For the month selected, obtain the billing records for the 10 "highest billing volume" services previously identified. Billing records should be for all BOC/ILECs, all states, and reflect billing from all section 272 affiliates. For each "highest billing volume" service, randomly select 6 billing transactions from the billing records. For each transaction, determine whether the amounts recorded for the purchase of the sampled services in the books of the BOC/ILEC are in accordance with the affiliate transactions rules of the Commission (section 32.27). Compare unit charges to Fully Distributed Cost (FDC), Fair Market Value (FMV), or prevailing market price (PMP) as appropriate; also check for any "chain" transactions. When differences exist, note in the report the number of instances and the amount by which each item is different from the amount required by the rules and, after inquiry, the reasons for these occurrences. Also disclose in the report the differences between the amount the BOC/ILEC has recorded as expense for the transaction in its books of account, and the amount the BOC/ILEC has paid for the transaction to the section 272 affiliate.

b. For the sample of billing transactions selected in step A, test that the transaction was properly recorded as revenue by the section 272 affiliate, and that the billed amount was paid by the BOC. For this purpose, inspect the Accounts Receivable record of the section 272 affiliate (may be a computer screen) that identifies the method of payment such as check number(s), wire transfer(s), and, if needed, summaries of invoiced amounts corresponding to the amount paid. Obtain copies of all relevant screens/summaries for the work papers. Disclose in the audit report each instance where a discrepancy is found in the billing or recording of the billing of the service by the section 272 affiliate, and each instance where the payment of the bill was not properly recorded, or not recorded.

8. Using the balance sheet information and the detailed listing obtained in Procedure 4 under Objective I, for items added during the Audit Test Period, perform the following steps:

a. For those items purchased or transferred from BST obtain net book cost and fair market value. Inquire and document in the report how the fair market value was determined. Inspect these transactions to determine whether they were recorded in the books of BST at the higher of FMV or net book cost, as required by the Commission's rules in section 32.27 and disclose in the report.

b. For those items purchased or transferred from another affiliate, identify and document in the report whether they were originally transferred from BST to other affiliates.

c. For those items purchased or transferred from BST, either directly or through another affiliate, during the Audit Test, inquire and obtain details of how BST provided equal opportunity for unaffiliated entities to obtain ownership of them. Disclose the results in the report. Describe and disclose in the report how and upon what basis BST decided to transfer/sell the facilities to a section 272 affiliate instead of an unaffiliated entity.

9. Obtain as of the end of the Audit Test Period a detailed listing of all fixed assets which were purchased or transferred from each section 272 affiliate to BST during the Audit Test Period . This detailed listing should include a full description of each item, location, date of purchase, price paid and recorded, and from whom purchased or transferred. For those items purchased or transferred from a section 272 affiliate, obtain net book cost and fair market value. Also determine if these items were originally transferred to the section 272 affiliate from some other affiliate (BOC or other), or purchased originally by the section 272 affiliate. Inspect these transactions to determine whether they were recorded in the books of BST at the lower of FMV or net book cost, as required by the Commission's rules in section 32.27. Disclose results of this inspection in the audit report.

10. Select a statistically valid sample of assets and/or services priced pursuant to section 252(e) (e.g., as approved by the regulatory commissions) or statements of generally available terms pursuant to section 252(f) during the Engagement Period. Compare the price BST charges the section 272 affiliate with the price stated in the publicly filed agreements or statements. Document any differences in the report.

11. Inquire and obtain details about whether BST sold or transferred any part of its Official Services network to the section 272 affiliate during the Engagement Period . In addition to the requirements for Procedure 8, for any transfer or sale of Official Services network assets during the Engagement Period , inquire and obtain details of how BST provided equal opportunity for unaffiliated entities to obtain ownership of the facilities. Describe how and upon what basis BST decided to transfer/sell the facilities to the section 272 affiliate instead of an unaffiliated entity. Disclose all of the above facts in the report.

Procedures for Nondiscrimination Requirements

OBJECTIVE VII. Determine whether or not the Bell Operating Company (BOC) has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities and information, or in the establishment of standards.

STANDARDS

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, establishes some non-discriminatory rules and regulations. These rules and regulations do not permit a Bell operating company (BOC) to discriminate in the following manner:

- by giving preference to a section 272 affiliate's equipment in the procurement process. (See First Report and Order, para. 16)

- in awarding contracts for telecommunications equipment directly to their affiliate in a manner that violates section 273(e)(1) or 273(e)(2). (See First Report and Order, para. 234)

- by failing to provide advance information about network changes to its competitors. (See First Report and Order, para. 16)

- by not offering third parties the same goods, services, facilities and information (excludes customer proprietary network information (CPNI) and joint marketing) that it provides to its section 272 affiliate at the same rates, terms, and conditions. (See First Report and Order, para. 202 and 218)

NOTES:

(i) BOCs are not required under the nondiscrimination rules and regulations to provide to third parties Customer Proprietary Network Information (CPNI) that is shared with affiliates (see *Second Report and Order*, CC Docket No. 96-115, Released February 26, 1998, para. 169). The provision of "information" referenced in the nondiscriminatory rules and regulations excludes CPNI. CPNI is defined in section 222(f)(1) of the Act and includes information that is personal to customers as well as commercially valuable to carriers, such as to whom, where and when a customer places a call, as well as the types of service offerings to which the customer subscribes and the extent the service is used.

(ii) BOCs are allowed to jointly market and sell affiliate-provided interLATA services without offering comparable joint marketing opportunities to other providers of interLATA services (see section 272(g)(2) of the Act, and CC Docket No. 96-149, First Report and Order, Paragraphs 291-292). However, if BOCs market or sell their telephone exchange services through joint marketing conducted by the section 272 affiliate, then the BOCs must also permit third parties to market and sell its telephone exchange services (see section 272(g)(1) of the Act).

- in establishing or adopting any standards that favor its section 272 affiliate(s) over third parties. (See First Report and Order, para. 208 and 229)

- in developing new services solely for its section 272 affiliate(s). (See First Report and Order, para. 210)

- in purposely delaying the implementation of an innovative new service by denying a competitor's reasonable request for interstate exchange access until its section 272 affiliate was ready to provide competing service. (See First Report and Order, para. 211)

- in marketing its affiliate's interLATA services to inbound callers without informing them of their right to select the interLATA carrier of their choice. (See First Report and Order, para. 292)

NOTE:

A BOC’s obligation to inform callers of their long distance choices is limited to customers who order *new* local exchange *service*. A caller orders “new service” when the customer either receives service from the BOC for the first time, or moves to another location within the BOC’s in-region territory. (*See In the Matter of AT&T Corp., Complainant, v. New York Telephone Company, d/b/a Bell Atlantic – New York, Defendant*, Memorandum Opinion and Order, File No. EB-00-MD-011; FCC 00-362; at ¶¶ 13-15.)

In addition, a section 272 affiliate may not market or sell information services and BOC telephone exchange services together, unless the BOC permits other information service providers to market and sell telephone exchange services. (See First Report and Order, para. 287)

PROCEDURES

1. Obtain BST's written procurement procedures, practices, and policies in effect during the Engagement Period. Review these policies for any stated purchasing preferences, and disclose in the report. Also disclose in the report the bidding and selection processes of BST, and how BST disseminate requests for proposals (RFPs) to affiliates and third parties.

2. Obtain and inspect BST's procurement awards to the section 272 affiliate during the Audit Test Period . Inspect bids submitted by the section 272 affiliate and by third parties. Note terms, discuss with BST representatives how the selection was made, and disclose this information in the report. Compare this practice with BST written procurement procedures and note any differences. Disclose in the report all instances of procurement awards given to the section 272 affiliate. For these awards, disclose in the report all differences between the terms of bids submitted by the Section 272 affiliate and the terms of bids submitted by third parties.

3. Obtain a list of all goods (including software), services, facilities, and customer network services information (excluding CPNI as defined in section 222(f)(1) of the Act, exchange access services and facilities [inspected in Objective IX], and interLATA services [inspected in Objective XI]) made available to the section 272 affiliate by BST during the Engagement Period. For a statistically valid sample of items from this list, obtain and inspect copies of the media used by BST to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price and on the same terms and conditions. Disclose in the report the results of this procedure.

4. a. Obtain a list of all goods (including software), services, facilities, and customer network services information (excludes CPNI) that were purchased during the Audit Test Period from the BOC/ILEC(s) by both an unaffiliated entity and any section 272 affiliate in any state. (NOTE: This list should **exclude** joint marketing services, exchange access services and interLATA services that are the subject of other procedures.) If any, describe in the audit report what goods, services, facilities, and customer network services information were purchased and the extent of purchases made. Determine the 10 goods/services billed to unaffiliated third parties with the highest billing volume in dollars (determination should be made based on accumulated billing to all unaffiliated entities). For each service selected, determine the billing system(s) used by each BOC/ILEC to bill the service, and disclose in the report whether the same system(s) is used for the billing of both the section 272 affiliates and unaffiliated third parties.

   b. For services using the same system to bill both the section 272 affiliates and unaffiliated third parties, perform the following:

1. For each system used by each BOC/ILEC to bill the section 272 affiliate and/or unaffiliated entities, obtain and summarize in the report the system or process descriptions of key controls, including those controls over (1) rate updates, (2) bill verification, (3) and journalization during the Audit Test Period.
2. Randomly select one month from the Audit Test Period. From the randomly selected month from the Audit Test Period, randomly select 1 section 272 affiliate and 1 unaffiliated third party invoice for each of the top 10 services identified in procedure 4a.

    i. For the respective services, trace the section 272 affiliate and unaffiliated third party invoices to the appropriate billing system to confirm that each transaction was billed using the same system.

    ii. Compare the rate charged the section 272 affiliate to the rate charged the unaffiliated third party. Note in the report any instances where the unaffiliated third party rate is greater than the rate charged the section 272 affiliate, and management's explanation as to why differences exist.

c. For the services using different systems to bill the section 272 affiliates and unaffiliated third parties, perform the following:

1. For each system used by each BOC/ILEC to bill the 272 affiliate and/or unaffiliated entities, obtain and summarize in the report the system or process descriptions of key controls, including those controls over (1) rate updates, (2) bill verification, (3) and journalization, during the Audit Test Period.
2. Randomly select one month during the Audit Test Period. For each service, randomly select 6 billing transactions. Compare the rates (including all terms and conditions, discounts, surcharges, late fees, etc.) charged for the service to the unaffiliated third party to the rate charged in the system used to bill the service to a section 272 affiliate.. Note in the report any instances where the unaffiliated third party rate is greater than the rate charged the section 272 affiliate, and management's explanation as to why differences exist.

d. Obtain and summarize in the report the description of BSLD's accounts payable processes and controls to record and issue payments to the BOC/ILEC during the Audit Test Period.

5. Document and disclose in the report how BST disseminated information about network changes, the establishment or adoption of new network standards, and the availability of new network services to the section 272 affiliate and to unaffiliated entities during the Engagement Period. Note any differences in the report.

6. Obtain and inspect scripts that BellSouth Telecommunications, Inc.’s customer service representatives recite to new customers calling, or visiting customer service centers, to establish new local telephone service or to move an existing local telephone service within the BOC in-region territory. If these scripts contain language that attempts to sell interLATA services, note and disclose in the report whether these scripts inform the consumers that there are other providers of interLATA services besides the section 272 affiliate. Also note whether, if requested, these other providers are identified to the consumers along with the interLATA service affiliates. In addition, obtain and inspect the written content of the BellSouth Corporation website for on-line ordering of new service and move service. Note and disclose in the report whether the consumers are informed that there are other providers of interLATA services and whether these providers are identified to the consumers, along with the interLATA service affiliate.

7. For all BST sales and support customer service call responding to inbound callers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in-region territory, inquire of management and describe in the report the methods and controls that are in place to ensure that the service representatives provide the equal access (EA) notification when interLATA service is offered. This EA notification should inform callers that they have a choice to select the interLATA services provider, that there are other providers of interLATA services, and offer to read the list of providers, along with the interLATA service affiliate. In addition, controls should include the type and frequency of training as well as BST’s monitoring and assessment efforts surrounding the performance of service representatives’ adherence to the EA notification requirement.

8. Identify the controls utilized by BST and the third party contractors hired for inbound telemarketing to assure compliance by BST with section 272 during the Audit Test Period. Compare BST controls with third party contractor controls and document differences in the audit report. Describe all controls in the report.

9. Obtain and review each of the contracts between BST and the third party contractors. Document in the audit report all controls contained in the contracts relating to section 272 during the Audit Test Period.

10. Document and disclose in the report the revisions, if any, BellSouth has made to the section 272 training for employees of BellSouth Corporation, which includes employees of BST and BSLD, as well as any current BellSouth small business third-party telemarketing vendors during the Engagement Period. . These revisions may include new materials more focused on the operational working relationship between BST and BSLD. Document and disclose in the report whether a ‘Mastery Test’ has been taken by each BellSouth employee. Disclose the results of such tests in the audit report. Inquire, document, and disclose in the report whether BellSouth performs mandatory training.

11. By Consent Decree in FCC 03-174 released July 17, 2003, BellSouth agreed that its section 272(d) audits will include steps evaluating BellSouth's compliance with certain requirements included in paragraph 11(a) of the Consent Decree.

a. Confirm and disclose in the report that BellSouth has (i) complied with the separate affiliate requirements set forth in 47 U.S.C. 272, including section 272(d), until such time as each of the nine states in BellSouth's region was relieved from the requirements, and (ii) agreed that BellSouth will be subject to enforcement proceedings for noncompliance with section 272 that occurs after July 17, 2003, in any of the nine states in BellSouth's region until such time as each of the nine states in BellSouth's region was relieved from the requirements.[6]

b. Document and disclose in the report whether BellSouth has continued to use a centralized Small Business Compliance Group (or a successor group) to monitor and evaluate compliance obligations for both BellSouth small business employees and small business third-party telemarketing vendors during the Engagement Period Determine and document in the report whether the Compliance Group maintains a certification program and a tracking mechanism to ensure that all small business training programs are completed and completed in a timely manner.

[6] In the Matter of BellSouth Corporation; *Order;* FCC 03-174, ¶¶ 11(a)(i) and 11(a)(ii); Released July 17, 2003.

<u>OBJECTIVE VIII</u>. Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates.

STANDARDS

Although the FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, reached various conclusions, further proceedings in this matter, currently underway, will provide the implementing rules and regulations. We will revise these procedures to conform to the new rules and regulations when adopted by the FCC, and to the extent in effect during the engagement period. The conclusions reached by the Commission provide that,

- for equivalent requests the response time a BOC provides to unaffiliated entities should be no greater than the response time it provides to itself or its affiliate. (See First Report and Order, para 240)

- a BOC must make available to unaffiliated entities information regarding the service intervals in which the BOC provides service to itself or its affiliates. (See First Report and Order, para. 242)

- a BOC must not provide a lower quality service to competing interLATA service providers than the service it provides to its section 272 affiliate at a given price. (See First Report and Order, para. 16)

In its section 271 applications, BST made commitments regarding compliance with section 272(e)(1) of the Act. This included the commitment to provide the performance monitoring that will assist in confirmation of nondiscriminatory performance in BellSouth Telecommunications, Inc.'s dealings with its section 272 affiliate. If the Commission adopts reporting requirements, BST will fully comply.

PROCEDURES

1. Document in the working papers the practices and processes BST had in place during the Engagement Period to fulfill requests for telephone exchange service and exchange access service for the section 272 affiliate, the BOC and other BOC affiliates, and nonaffiliates in each state where BST has been authorized to provide in-region interLATA services. If the section 272 affiliate, or the BOC and other BOC affiliates, are treated differently than nonaffiliates, note and describe all differences in the report. Describe in the report BST's internal controls and procedures designed to implement its

duty to provide nondiscriminatory service.

2. For each state where BST has been authorized to provide in-region inter-LATA services, document in the working papers the processes and procedures followed by the BOC/ILEC to provide information regarding the availability of facilities used in the provision of special access service to its section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates during the Engagement Period. Note any differences in the report. Inquire of management whether or not any employees of the section 272 affiliates or BOC and/or other BOC affiliates have access to, or have obtained information regarding, special access facilities availability in a manner different from the manner made available to nonaffiliates (e.g., direct calls, placed prior to ordering, from the section 272 affiliates or BOC account managers to employees who may have facilities availability information). Disclose in the report any such instances occurring during the Engagement Period.

3. For each state where BST has been authorized to provide in-region interLATA services, obtain the written methodology that BST followed during the Engagement Period to document time intervals for processing orders (on initial installation requests, subsequent requests for improvement, upgrades or modifications of service, or repair and maintenance), for provisioning of service, and for performing repair and maintenance services described in Procedure 4 below. Obtain this information for the Section 272 affiliate, the BOC and other BOC affiliates, and nonaffiliates. Briefly describe the methodology in the report. If the company does not have any written procedures, ask why and document the reason in the report.

4. For each state where BST has been authorized to provide in-region interLATA services, obtain and include as an attachment to the report, performance data and related volumes maintained by BST during the period June 1, 2005 through November 30, 2005, by month. Indicate time intervals for processing orders (on initial installation requests, subsequent requests for improvement, upgrades or modifications of service, and repair and maintenance), for provisioning of service, and for performing repair and maintenance services for the section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates, as separate groups. Provide performance data for the following services:

    - Telephone exchange service, if any of the separate groups resells local service or intraLATA toll service. This does not include the selling of BOC local service or intraLATA toll service to retail customers.

    - Exchange access services as provided through an ASR for DSO, DS1, DS3, feature group D, and OCn, as individual groups; for the BOC and other BOC affiliate group, exchange access measurements should cover services provided to end users on a retail basis and services provided to affiliates on a wholesale basis.

- Unbundled network elements, if the section 272 affiliate purchases unbundled network elements.

- Presubscribed Interexchange Carrier (PIC) change orders for intraLATA toll services and interLATA services.

The table below should be used as guidance for the information to be included in the metrics. If no performance measures are applicable for both the “Section 272 affiliates” and the “BOC and other BOC affiliates” groups, performance metrics for nonaffiliates are not required. When reporting performance measures for the “nonaffiliates” group, only performance measures for the services purchased by the “Section 272 affiliates” and/or the “BOC and other BOC affiliates” need be reported. For each group (Section 272 affiliates, the BOC and other BOC affiliates, and nonaffiliates) and each service category (telephone exchange service, exchange access service, UNEs, and PIC change orders) combination in the table below for which BST makes a claim of “not applicable”, the practitioner must confirm independently that there are no such measurements to be reported, or get a representation letter from management as to why such measurements do not need to be reported in this engagement.

SUMMARY OF COMPANY TYPE AND SERVICE TYPES FOR PERFORMANCE MEASUREMENT REPORTING

Company Type	Telephone Exchange Service	Exchange Access Service (ASRs Only)	UNEs	PIC Change Orders (both interLATA and intraLATA PIC changes
272 Affiliate	Included - if the 272 affiliate resells local service or intraLATA toll service	Included	Included if applicable	Included
Other Affiliates, Including the BOC(s)	Included - to measure services provided on a **Resale** basis	Included - to measure services provided to end users on a **Retail** basis, and **Wholesale** services provided to affiliates	Included if any section 272 affiliate purchases UNEs from the BOC	Included if applicable
Non-Affiliates (includes all entities purchasing services for resale or on a wholesale basis)	Included - to measure services provided on a **Resale** basis	Included	Included if any section 272 affiliate purchases UNEs from the BOC	Included

The performance measures should include the requested performance data by month, including related parity scores, for each state beginning June 1, 2005 and ending on November 30, 2005 . Where appropriate, the performance measures data shall reflect the standard deviation, as well as mean. For purposes of inclusion in the audit report, the practitioner should obtain all restatements of any performance data, and include in the report the latest restatement.

For each of the above service categories, except for PIC change orders, the measurements shall be those that BST has committed to maintain in each section 271 application to prove compliance with these nondiscriminatory requirements, as follows:

a. Firm Order Confirmation (FOC) Timeliness - The average amount of time (in days) from the receipt of a valid service request to the distribution of a Firm Order Confirmation back to the originating carrier. This measurement is produced by dividing the sum of all FOC intervals by the total number of service requests confirmed in the reporting period. Indicate the total number of order requests for each service and for each group of customers.

b. Average Installation Interval - The average interval (in days) between the application for service (ASR) by the carrier (or in some cases the issuance of the service order) and the actual completion of the service order expressed in days compared to the average BellSouth offered interval and the average requested customer desired due date (CDDD) interval. Each interval is calculated by dividing the sum of each interval (i.e., ASR to CDDD, ASR to FOC due date, and ASR to completion date) by the number of carrier service orders completed during the report period. Indicate the total number of service orders for each service and for each group of customers.

c. % Installation Appointments Met - The percentage of installation commitments met during the current reporting period. This measurement is calculated by dividing the number of carrier installation orders completed during the report period on or before the BellSouth-provided commitment date by the total number of installation orders received from the carrier and committed to completion during the same report period. Indicate the total number of installation orders for each service and for each group of customers.

c. Trouble Report Rate – Percentage of initial and repeated circuit-specific carrier trouble reports received per 100 circuits in service for the report period. The percentage is calculated by dividing the number of carrier trouble reports received by the number of carrier circuits in service during the report period. Troubles per 100 circuits in service are expressed as a %. Indicate the total number of circuit-specific trouble reports for each service, for each group of customers.

d. Average Repair Interval - The average outage duration or interval (in hours) for trouble reports received from carriers. The repair interval starts at the receipt of the trouble report and ends when the trouble report is reported as cleared to the originating carrier. This measurement is calculated by dividing the total number of hours of outage for all carrier trouble reports received during the report period by the number of carrier trouble reports received during the report period. Indicate the total number of trouble reports for each service, for each group of customers.

For PIC change orders, the measurements shall be as follows:

Average Installation Interval - PIC Changes – The average amount of time (expressed in hours) between the date/time the carrier's PIC-related order is placed and the date/time the PIC-related service order was completed. This time is calculated by dividing the number of hours/minutes required to complete all installation orders received from the carriers by the total number of installation orders received from the carriers during the same report period. Indicate the total number of PIC change orders for each group of customers.

Note and disclose in the report differences in time in fulfilling each type of request for the same services from the section 272 affiliates, the BOC or other BOC affiliates, and nonaffiliates. Elicit explanations from BST where fulfillment of requests from nonaffiliates took longer than for either the section 272 affiliates or the BOC or other BOC affiliates. Provide in the report a linear graph for each state, for each performance measure, for each service, over the entire Audit Test Period, depicting the performance for the section 272 affiliates, BOC and other BOC affiliates, and nonaffiliates. If the requested performance data is not available in the manner described in this procedure (by month, by company type, by services) for the entire engagement period inquire and disclose in the audit report the period and description of the data that are lacking and the reasons why.

5. Using the reported data (i.e., by state, by service, by performance measure, by month) in Procedure 4 above, randomly select one month. For each section 272(e) performance metric, for each state, and for each service category described above in Procedure 4, apply the business rules to the underlying data for the one month selected. Compare the results to those tracked and maintained by BellSouth Telecommunications, Inc., for that performance metric. Applying the business rules must include all stages of the performance metric including definitions, exclusions, calculations, and reporting structure. Document any differences in the report.

6. Determine first by inquiry and then by inspection, how and where BST made information available to unaffiliated entities regarding service intervals in the provision of any service to the section 272 affiliate, the BOC or other BOC affiliates, and nonaffiliates during the Engagement Period. Document the results in the report.

<u>OBJECTIVE IX</u>. Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to section 251(c) of the Act have made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under section 272 that operates in the same market.

<u>STANDARDS</u>

The FCC in CC Docket No 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, indicates that a BOC may not discriminate in favor of its section 272 affiliate in the following manner:

- by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its section 272 affiliate. (See First Report and Order, para. 16)

- by not making available facilities and services to others on the same terms, conditions and prices that it provides to its section 272 affiliate. (See First Report and Order, para. 316)

<u>PROCEDURES</u>

This objective is closely related to Objective XI that contains procedures for the provision by BST of interLATA facilities and services. Therefore, these procedures may be performed in conjunction with the procedures for Objective XI.

1. Obtain a list of exchange access services and facilities, with their related rates, offered to the section 272 affiliate during the Engagement Period. Inspect to determine whether BST makes these services and facilities available at the same rates and on the same terms and conditions to all carriers. For this purpose, request and inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services. Using a statistically valid sample of the informational media identified above, compare rates, terms, and conditions offered to the section 272 affiliate with those offered to unaffiliated carriers. Note all exceptions in the report.

2. a. Obtain a listing of all exchange access services and facilities rendered to the section 272 affiliate(s) and other interexchange carriers (IXCs) during the Audit Test Period in any state. If any, describe in the audit report what exchange access services and facilities were purchased and the extent of purchases made. Determine the 10 goods/services billed to unaffiliated third parties with the highest billing volume in dollars (determination should be made based on accumulated billing to all unaffiliated entities). For each service selected, determine the billing system(s) used by each

BOC/ILEC to bill the service, and disclose in the report whether the same system(s) is used for the billing of both the section 272 affiliates and unaffiliated third parties.

b. For services using the same system to bill both the section 272 affiliates and unaffiliated third parties, perform the following:

1. For each system used by each BOC/ILEC to bill the section 272 affiliate and/or unaffiliated entities, obtain and summarize in the report the system or process descriptions of key controls, including those controls over (1) rate updates, (2) bill verification, (3) and journalization during the Engagement Period.

2. Randomly select one month from the Audit Test Period. From the randomly selected month from the Audit Test Period, randomly select 1 section 272 affiliate and 1 unaffiliated third party invoice for each of the top 10 services identified in procedure 2a

    i. For the respective services, trace the section 272 affiliate and unaffiliated third party invoices to the appropriate billing system to confirm that each transaction was billed using the same system.

    ii. Compare the rate charged the section 272 affiliate to the rate charged the unaffiliated third party. Note in the report any instances where the unaffiliated third party rate is greater than the rate charged the section 272 affiliate, and management's explanation as to why differences exist.

c. For the services using different systems to bill the section 272 affiliates and unaffiliated third parties, perform the following:

1. For each system used by each BOC/ILEC to bill the 272 affiliate and/or unaffiliated entities, obtain and summarize in the report the system or process descriptions of key controls, including those controls over (1) rate updates, (2) bill verification, (3) and journalization, during the Engagement Period.
2. Randomly select one month during the Audit Test Period. For each service, randomly select 6 billing transactions. Compare the rates (including all terms and conditions, discounts, surcharges, late fees, etc.) charged for the service to the unaffiliated third party to the rate charged in the system used to bill the service to a section 272 affiliate. Note in the report any instances where the unaffiliated third party rate is greater than the rate charged the section 272 affiliate, and management's explanation as to why differences exist.

d. Obtain and summarize in the report the description of BSLD's accounts payable processes and controls to record and issue payments to the BOC/ILEC during the Engagement Period.

<u>OBJECTIVE X</u>. Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to section 251(c) of the Act have charged its separate affiliate under section 272, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carrier for such service.

<u>STANDARDS</u>

The FCC has issued rules and regulations in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. These rules require that,

- A BOC may not discriminate in favor of its section 272 affiliate by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its section 272 affiliate (See First Report and Order, para. 16). This requirement is met,

    - If the affiliate purchases exchange service and exchange access service at tariffed rates. (See First Report and Order, para. 256)

    - If the affiliate acquires services or unbundled elements from a BOC at prices that are available on a nondiscriminatory basis under section 251. (See First Report and Order, para. 256)

    - If the BOC files with the State Commission a statement of generally available terms pursuant to section 271(c)(1)(B) which would include prices that are available on a nondiscriminatory basis in a manner similar to tariffing, and a BOC's section 272 affiliate obtains access or interconnection at a price set forth in the statement. (See First Report and Order, para. 256)

    - If a BOC makes volume and term discounts available on a nondiscriminatory basis to all unaffiliated interexchange carriers. (See First Report and Order, para. 257)

- BOCs are required to charge nondiscriminatory prices, and to allocate properly the costs of exchange access according to the affiliate transactions and joint cost rules. (See First Report and Order, para. 258)

- For integrated operations (for operations performed within the company and not under a separate affiliate), a BOC must impute to itself an amount for access to its telephone exchange service and exchange access that represents tariffed rates (See First Report and Order, para. 256). This tariffed rate must be the highest rate paid for access by unaffiliated carriers. The BOC may consider the comparability of the service provided.

(See CC Docket No. 96-150 Report and Order, para. 87)

PROCEDURES

1. Obtain a list of all interLATA services offered by BST during the Engagement Period and discuss list with appropriate BST employees to determine whether the list is comprehensive. Compare services appearing on the list with interLATA services disclosed in the BST's Cost Allocation Manual (CAM) and note any differences in the report. Compare the nonregulated interLATA services listed in BST's CAM with those defined as incidental in section 271(g) of the Act and those interLATA services allowed under FCC order (for example E911) and note any differences and disclose them in the report.

2. From the list of services obtained in Procedure 1 above, by using a statistically valid sample of interLATA services offered by BST and not through an affiliate, determine whether BST is imputing (charging) to itself an amount for access, switching, and transport during the Audit Test Period. If imputation is not occurring for any interLATA service offered by BST, inquire of management and document in the report why this situation is occurring. For each service for which imputation is performed, for one month during the Audit Test Period, randomly selected, obtain usage details and tariff rates for each for each of the access, switching, and transport elements. Match rates used in calculations with the tariff rates or the highest rates charged other interexchange carriers (IXCs). Note any differences in the report. Trace amount to the journal entry and to the general ledger of BST. The entry should be a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase). If the process followed by BST is different from the one described above, disclose in the report.

3. For each of the following categories of services, i.e., exchange access services, local exchange services, and unbundled network elements, provided by BST to the section 272 affiliate for the Audit Test Period , document the total amount the section 272 affiliate has recorded as expense for those services in their books, and compare the amounts booked as revenues by BST to the amounts recorded by the section 272 affiliate. Also compare the amount recorded as expense to the amount paid by the section 272 affiliate to BST. Where there is a difference in any of the comparisons, inquire as to the reason(s) why, and disclose in the report.

OBJECTIVE XI. Determine whether or not the Bell Operating Company (BOC) and an affiliate subject to section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.

STANDARDS

Valuation and recording of procedures for sales or transfers of any interLATA or intraLATA facilities to any section 272 affiliate, the leasing of any unbundled network elements, or the provision of any service by the BOC to any section 272 affiliate are covered in Objectives V and VI of this program, under the affiliate transactions rules.

BOC services and unbundled network elements made available under section 251 to each section 272 affiliate must also be made available at the same price to unaffiliated companies. (See CC Docket No. 96-149, First Report and Order, para. 256)

PROCEDURES

This objective is closely related to Objective IX, which contains procedures for the provision, by BST of exchange access services. Therefore, these procedures may be performed in conjunction with the procedures for Objective IX.

1. Obtain a list of interLATA services and facilities, with their related rates, offered by BST to the section 272 affiliate during the Engagement Period. For each service, determine whether the service is actually provided to (subscribed to by) the section 272 affiliate. Determine whether BST makes these services and facilities available at the same rates, terms, and conditions to all carriers. For this purpose, obtain and inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services.

   Compare the list of interLATA services offered obtained from BST to the services found in the requested information media and note any differences in the audit report. In addition, compare the list obtained from BST to the list of interLATA services obtained in Objective V/VI, Procedure 4, and to the list of interLATA services obtained in Objective X, Procedure 1 (after comparison to the CAM). Document in the audit report any instance where services were found in either the list of services from Objective V/VI, Procedure 4, the list of services from Objective X, Procedure 1, or in advertising media that were not reported by BST in response to this procedure. Also document in the audit report any interLATA services that are offered to any section 272 affiliate, but which are not covered by any written agreements.
2. Using the information media obtained in Procedure 1, select a statistically valid sample of the informational media identified above, compare rates, terms, and conditions offered

each section 272 affiliate with the rates, terms, and conditions offered unaffiliated carriers and disclose differences in the report.

3. a. Obtain a listing of all interLATA services and facilities rendered to the section 272 affiliate(s) and other interexchange carriers (IXCs) by the BOC/ILEC(s) during the Audit Test Period in any state. If any, describe in the audit report what interLATA services and facilities were purchased and the extent of purchases made. Determine the 10 goods/services billed to unaffiliated third parties with the highest billing volume in dollars (determination should be made based on accumulated billing to all unaffiliated entities). For each service selected, determine the billing system(s) used by each BOC/ILEC to bill the service, and disclose in the report whether the same system(s) is used for the billing of both the section 272 affiliates and unaffiliated third parties.

b. For services using the same system to bill both the section 272 affiliates and unaffiliated third parties, perform the following:

1. For each system used by each BOC/ILEC to bill the section 272 affiliate and/or unaffiliated entities, obtain and summarize in the report the system or process descriptions of key controls, including those controls over (1) rate updates, (2) bill verification, (3) and journalization, during the Engagement Period.
2. Randomly select 1 section 272 affiliate and 1 unaffiliated third party invoice for each of the top 10 services identified in procedure 3a.

   i. For the respective services, trace the section 272 affiliate and unaffiliated third party invoices to the appropriate billing system to confirm that each transaction was billed using the same system.

   ii. Compare the rate charged the section 272 affiliate to the rate charged the unaffiliated third party. Note in the report any instances where the unaffiliated third party rate is greater than the rate charged the section 272 affiliate, and management's explanation as to why differences exist.

c. For the services using different systems to bill the section 272 affiliates and unaffiliated third parties, perform the following:

1. For each system used by each BOC/ILEC to bill the 272 affiliate and/or unaffiliated entities, obtain and summarize in the report the system or process descriptions of key controls, including those controls over (1) rate updates, (2) bill verification, (3) and journalization, during the Engagement Period.

2. Randomly select one month during the Audit Test Period. For each service, randomly select 6 billing transactions across the month selected. Compare the rates (including all terms and conditions, discounts, surcharges, late fees, etc.)

charged for the service to the unaffiliated third party to the rate charged in the system used to bill the service to a section 272 affiliate. Note in the report any instances where the unaffiliated third party rate is greater than the rate charged the section 272 affiliate, and management's explanation as to why differences exist.

d. Obtain and summarize in the report the description of BSLD's accounts payable processes and controls to record and issue payments to the BOC/ILEC during the Engagement Period.

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Procedures for Subsequent Events

1. Inquire of management whether companies' processes and procedures have changed since the time of execution of these procedures and the end of the engagement Period. Disclose in the report all changes included in management representation.

2. Inquire of and obtain written representation from management as to whether they are aware of any events subsequent to the engagement period, but prior to the issuance of the report, that may affect compliance with any of the objectives described in this document. Disclose in the report any such event.